PETROLEUM STUDY

(GASOLINE AND OIL PRICE INCREASES)

HEARINGS

BEFORE THE

COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE HOUSE OF REPRESENTATIVES

EIGHTY-THIRD CONGRESS

FIRST SESSION

ON

RECENT PRICE INCREASES OF GASOLINE AND OIL

JULY 1, 6, 7, 8, 9, 13, 14, 15, 16, AND 23, 1953

Printed for the use of the Committee on Interstate and Foreign Commerce

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PETROLEUM STUDY

(Gasoline and Oil Price Increases)

WEDNESDAY, JULY 1, 1953

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to call, in room 1334 of the House Office Building, Hon. Charles A. Wolverton, chairman of the committee, presiding.

The CHAIRMAN. The hearing will be in order.

The purpose of the hearings starting today is to inquire into the recent increases in the prices of crude oil, gasoline, fuel oils, and other oil products.

We have received many complaints these past few days relating to the series of gasoline and fuel oil price increases which have been put into effect, particularly on the eastern seaboard. Our attention also has been called to the recent increase in the price of crude oil, and to earlier oil price increases on the west coast.

Inasmuch as these price increases follow a period of successive cutbacks in the amount of domestic production allowed, and have come at the very time that stringent reduction of oil imports is being urged, our committee proposes to inquire into just what the situation may be and to develop the facts or conditions which have caused, or are alleged to have caused, such increases.

The House Committee on Interstate and Foreign Commerce is charged with legislative responsibility over the field of petroleum. This responsibility it has continuously discharged over the past years as it has examined into matters bearing upon our maintaining a strong and healthy petroleum industry adequate to meet the demands of our national defense and the expanding needs of our economy. The committee naturally is just as vitally concerned in the public interest with the effect of the prices charged upon industry, agriculture, and consumers at large. Such concern it has demonstrated by the hearings in 1948 at the time of an earlier general price rise, and in the setting down of these hearings starting today.

Based upon public statements which have been made, press comments, and the present high production and inventory position in the oil industry, these price increases at this time cannot readily be understood. Nor, judging by the complaints which this committee has received, does the public understand it.

Why gasoline and heating oil prices should go up just at this time, when commodity prices generally are soft and reflect a firming up of the purchasing value of the dollar, is hard to perceive.

This is one of the questions into which we shall inquire. There are many others to which answers will be sought in an effort to determine whether these increases are warranted by the facts at this time. I shall mention some of them.

1. Do the increased prices truly reflect the operation of normal market factors of demand and supply, or are they the result of other causes?

In our 1948 hearings the oil companies testified to the effect that apart from a period of artificial Government controls, petroleum prices are determined by the action of supply and demand. As one company put it:

> It must be borne in mind that in the short run price is determined by the relationship between demand and supply, not by cost. In the long run, if the margin between price and cost of production becomes unduly large or small, economic forces are set in effect to adjust supply and demand, and again restore a balance in which price provides a reasonable return in relation to costs.

2. Was an invitation for someone else to start these price increases issued last May by our biggest oil company?

It appears that a director of this company, in addressing a regional meeting of the American Petroleum Institute in Casper, Wyo., last May, expressed the time as being ready for an adjustment of price. The significance of this statement from a representative of this company, which is reported consistently since 1947 as having been opposed to attempts by the industry to raise the price of crude, seems to have been missed until the appearance of an article early in June in the New York Journal of Commerce. The crude price rise followed shortly thereafter.

3. How did it happen that when one company initiated a price increase, all of the others so quickly followed suit? Was this an expression of free competition?

In response to questionnaires sent to 30 oil companies in our 1948 investigation of price increases, all companies said that their action in prices was independently taken.

4. Did the company initiating the increase in the price of crude oil do so because it had been losing business to competitors?

In 1948, the company which had led the price advance in crude oil stated to the committee it had been forced to do so because it purchased a great portion of its crude oil from others who would not sell to it at the current price in the tight supply market then prevailing.

5. How can the increases in crude oil, gasoline, and fuel-oil prices be justified today in view of our having the greatest proved reserves we have ever had, record rates of production, high inventories of products, high imports, and an excess of production capacity of a million barrels a day over current rates of production?

In 1948, following a period of greatly increased demand upon an industry that had necessarily been restricted in development during the war, we had little of the reserve capacity which we had prior to the war. Today the industry has, through domestic and foreign capacities, a tremendously greater production potential than is being used.

6. How can the fuel-oil price increase be substantiated at this time in view of the high level of stocks and seasonal ebb in demand?

Numerous oil commentators point to a lagging demand for fuel oils, and an overstock position which it is hoped to "cure" by curbing production.

7. Is the increase in the price of fuel oil an expression of a policy of discouraging consumers from using oil for fuel?

In 1948, the company which had led the prior crude-oil price increase, said:

> The practicalities of the situation require price increases, not only to stimulate more production, but also—just as important—to check the expansion of a demand for fuel oils that has been growing out of bounds. The obvious fact, as has been frequently stated, is that oil cannot heat all of the homes of the country, nor can oil continue, as it has in recent years, to supply virtually all the increases in the Nation's energy load.

8. Has domestic production been so restricted so as to jeopardize or reduce supply below current demand through the manipulation of the rates of oil allowed to be produced by the Texas Railroad Commission, or other commissions?

Starting with November 1952, the amount of oil allowed to be produced in the State of Texas, a State that customarily contributes about half of the domestic total, was steadily reduced during the succeeding 7 months, by action of the regulatory commission.

9. Why has the Texas Railroad Commission, since the increase in the price of crude oil, now raised the amount of oil which may be produced, although stating that production still exceeds demand by 400,000 barrels daily?

In announcing the change in allowables, the commission chairman stated that reduced refinery runs might head off cuts later, that next year would be a critical one, but that the oil industry could "go forward with a vigorous campaign if caution is exercised by all elements now."

10. In what way do the sustained high earnings of the oil companies show a need for price increases to meet rising costs?

The 30 companies included in the study of the Chase National Bank show net income in 1952 of $2,020 million compared with $2,090 million in 1951. The 46 listed companies reporting to the Securities and Exchange Commission had net earnings in the first quarter of 1953 of $478 million, compared with $489 million in the first quarter of 1952.

11. In view of the record drilling in 1952 of nearly 46,000 wells, and a continuation of drilling through the first quarter of 1953 at the same rate as 1952, what is the need of a price increase as incentive for additional drilling of wells?

It is noted that in the first quarter of 1953, drilling of wildcats even exceeded by 240 the number drilled in the first quarter 1952.

12. How far has the change in the rates for ocean tankers affected downward the price of heating oils on the eastern seaboard, inasmuch as the increased rates for tankers was urged a year ago as reason for a need to increase such prices?

The committee was so apprised of the situation in hearings last year.

13. Why has California, a traditionally large supplier of oil, been forced to import oil from other areas to supply west coast consumers,

and to increase prices, reportedly to meet the higher costs of such imports?

In testimony before the committee this past spring, the reasons were not made clear.

14. Will the increased prices of crude in this country now be met by greater imports from Venezuela, the Middle East, or elsewhere, because crude oil prices there are lower, or will prices there be increased so this will not follow?

Will our companies operating abroad import more into this country from their overseas sources, in effect thus underselling themselves here?

15. Will the new foreign voluntary agreement just entered into by our companies operating abroad, permit the distribution of any world surplus of oil that might arise, such as were Iranian production again to materialize, just as it covered the distribution of the deficit when the Iranian refinery at Abadan was shut down?

Whether it covers surpluses as well as shortages is not apparent.

16. Do the increased prices of gasoline and fuel oil merely represent a foretaste of the higher prices which the major oil companies have intimated would follow the enactment of any policy to restrict imports?

Testimony by importing companies in recent hearings of the Ways and Means Committee was to the effect that a general policy of discouraging imports would force high prices on consumers.

17. Or are the higher prices for crude oil the result of some understanding reached to avoid enactment of a policy restricting imports?

It is reported through the press that a spokesman for the independent producers, in commenting on the increased price of crude oil, stated:

> Undoubtedly it will lessen the pressure for immediate legislative action on the imports problem.

These questions which I have outlined are simply illustrative of the need for obtaining a correct portrayal of the facts, if one is to understand how these price increases may be justified at this time. We look forward to the cooperation and help which the various witnesses appearing before us will give in clearing up the question of whether the increases are warranted.

The committee also has an especial responsibility for the maintenance of a national transportation system adequate and able to meet the needs of our country. Transportation is a service, one of the chief costs of producing which is that of the fuel consumed, which is vital to our defense and economy, whether in the movement of materials of war, of goods in commerce, of persons to their places of work, or of agricultural products to feed them. We shall hear today, accordingly, from representatives of transport and other industries as to just how the increased prices of oil products affect them.

This is to be followed, probably commencing on Monday next, with hearing the witnesses on behalf of the companies.

We have with us this morning representatives of a legislative committee appointed by the legislature of the State of Michigan. They are likewise interested in this subject. They are present today, not only to indicate their interest, but also to make a contribution to the work of this committee in the hope that this committee will be able to cooperate with them in the study that they are making.

We will be pleased to hear at this time from the representative of the Michigan legislative committee.

Mr. BENNETT. Mr. Chairman, I believe that Mr. William S. Broomfield is the chairman of the Michigan committee. I think he is here, and would like to present the views of his committee.

I would like also to state, Mr. Chairman, that the Michigan State Legislature has concerned itself with this problem from time to time during the past 3 years, and in 1951 a committee of the State legislature spent 7 or 8 months studying this problem insofar as it relates strictly to the people of the State of Michigan.

I know that you will be interested in hearing Mr. Broomfield, who also has the other members of his committee with him, and I would like to present him to the committee at this time.

STATEMENT OF WILLIAM S. BROOMFIELD, CHAIRMAN OF THE MICHIGAN COMMITTEE TO INVESTIGATE GASOLINE PRICES, ACCOMPANIED BY CYRIL H. ROOT, JOSEPH A. CAVANAGH, EDWARD H. JEFFRIES, AND WILLIAM A. AUSTIN, MEMBERS OF THE COMMITTEE

Mr. BROOMFIELD. Mr. Chairman and members of the Interstate and Foreign Commerce Committee, it is really a wonderful honor for us to come from Michigan to appear before this honorable body. I also want to thank you, and also Congressman Bennett, for making these arrangements possible.

At this time I would like to introduce the members of the Michigan Legislative Investigating Committee:

First is Representative Jeffries from Detroit; Representative William Austin from Muskegon; Representative Joe Cavanagh from Midland; and Representative Cyril Root, from Kalamazoo.

I would like to say at the outset that our committee is down here, you might say, not technically as a witness, as a complaining witness, but we are interested in a mutual problem that you have started on.

I happened to be a member and in fact chairman of the investigating committee back in 1951, working in conjunction with the State attorney general in this same problem. We worked about 8 months, gathered a lot of material, and went into a very extensive investigation. We had certain recommendations, and those reports I am going to submit to you today.

I have a general introductory statement that I would like to make.

Hon. Charles A. Wolverton, chairman: the Legislature of the State of Michigan has continued this special committee to investigate the prices of gasoline and the cause of the recent increases, and the reasons for any discrimination in prices as charged in Michigan and prices charged in other States. I am also enclosing a copy of our resolution which we are operating under.

Since your honorable committee has determined to make an investigation in the same field on a nationwide basis, our State committee wishes to offer its cooperation and to ask your help in our investigation. We believe that there are factors of intrastate operation which we can develop which will be helpful to your committee, and that the factors of interstate commerce involved in the problem will be of

help to our committee. To the extent that we can be of help to you, we make the offer.

As a matter of record, this committee conducted extensive hearings in 1951 and made its report to the legislature last year. I am also enclosing a copy of that report. I might say we were very delighted when you gentlemen decided to undertake the investigation on a national basis, since any State necessarily is limited in the scope of its activities in interstate matters.

We believe a coordinated approach may be of the highest value to both parties concerned, and for the general public good.

We recommend and request that you send a subcommittee to Michigan during the course of your investigation, because Michigan, as the seventh State of the Union, is actually in the center of the Midwest region where this problem is particularly acute.

In addition, since Michigan is the center of world automobile production, the effect of this problem is crucial, both for Michigan and the nationwide consumer's market. We recommend that this step be taken as soon as convenient to you, and we shall be glad, as a committee, to cooperate in every way possible to make your work fruitful. We would be glad to participate in a joint hearing in Michigan, if that was possible.

While the Michigan committee is primarily a factfinding body, our recommendations to the legislature may include statutory proposals if such are found to be feasible or necessary.

Upon your authorization, we would be glad to establish mutuality of staff operations and exchange of information.

That ends the statement that I have, as far as the introductory portion.

(The resolution referred to follows:)

[House Journal No. 80, May 19, 1953]

Representatives Broomfield, Cyril H. Root, Cavanagh, Fitzpatrick, Cooper, and Jeffries offered the following resolution:

HOUSE RESOLUTION NO. 38

A resolution providing for an investigation of the relationship between the retail price of gasoline in Michigan and its gasoline tax in comparison with the same relationship in other States.

Whereas recently announced increases in the price of gasoline in the Detroit metropolitan area and the possibility of additional increases elsewhere in the State are imposing a continuing burden upon motorists and may adversely affect the use of the highway system of Michigan; and

Whereas it has come to the attention of the house of representatives that there is no uniform direct relationship between the retail price of recognized brands of gasoline and the State tax imposed thereon throughout the Nation; and

Whereas it is known that in some instances the retail price of gasoline has recently been from 1 to 4 cents per gallon more in Michigan than in States with gasoline taxes as much as 4 cents higher than Michigan; and

Whereas it is a fact that recognized brand gasoline has been sold in adjacent States for less than in Michigan, notwithstanding the fact that these States have higher State gasoline taxes than Michigan; and

Whereas it is the duty of the house of representatives to investigate and seek redress for its citizens from apparent price discrimination: Now, therefore, be it

Resolved by the house of representatives, That a special interim committee

composed of five members of the house, to be appointed by the speaker, is hereby created to make an investigation of the relationship between the retail price of gasoline in Michigan and its gasoline tax in comparison with the same relationship in other States; and be it further

Resolved, That said committee shall conduct its investigation in the interim between regular sessions of the legislature and shall report its findings and make its recommendations to the next regular session of the legislature; and be it further

Resolved, That legislative immunity shall not extend beyond the actual members of the committee hereby created; and be it further

Resolved, That the committee shall be authorized to administer oaths, subpena witnesses and/or to examine books and records of any public agency and of any persons, partnerships or corporations involved in any matter within the jurisdiction of the committee in its investigations and study; and be it further

Resolved, That the members of the committee shall serve without compensation, but shall be entitled to actual and necessary traveling and other expenses incurred in the performance of official duties, to be paid from the appropriation to the house of representatives; and be it further

Resolved, That the committee shall be authorized to employ counsel and such additional aid as may be necessary for the purposes of this resolution: *Provided*, That the total expenses incurred by such committee shall not exceed $1,500.

The resolution was referred to the committee on rules and resolutions.

Mr. BROOMFIELD. Now, Mr. Chairman, I would like to give you a little background as far as Michigan is concerned.

Since 1946, when the ceilings went off on OPA, we have had 15 increases up to the present time. During that time, and I should say during the 1951 investigation, they went into a so-called price war, and there were two decreases.

Now, Michigan has one of the 10 leading cities throughout the United States, and has the highest gasoline price, and that is why we urge you and strenuously ask you to come to Michigan to hold some of your hearings, because the people of Michigan are very much alarmed. We are just wondering when these prices are going to stop rising.

It seems like these prices are ever-increasing, with no indication in sight that they have reached the top of what they consider the right price for gasoline.

I would like to introduce Representative Austin, who briefly can give you some idea of what was accomplished during the 1951 investigation, if that meets with your approval.

The CHAIRMAN. Give your full name, please, and your residence.

Mr. AUSTIN. William A. Austin, of Muskegon, Mich., and I represent the First District of Muskegon County.

This report is reported in No. 16, Journal of the House of Representatives, Michigan Legislature, January 30, 1952.

As you gentlemen know, the investigation was done by a special interim committee to investigate the relationship between the retail price of gasoline in Michigan and its gasoline tax in comparison with the same relationship in other States.

Mr. BENNETT. Would you like to have that report made a part of the record of this hearing?

Mr. AUSTIN. Yes, I would, and I would request it be made a part of this hearing.

Mr. BENNETT. I would request permission to have the report to which he is referring made a part of the record here.

The CHAIRMAN. The request is granted.

(The report referred to follows:)

[House Journal No. 16, January 30, 1952]

REPORT OF SELECT COMMITTEES

REPORT OF COMMITTEE ON GAS EXPLOSIONS

The committee of the legislature appointed pursuant to House Concurrent Resolution No. 54 to continue an investigation and study of gas explosions, undertaken under the provisions of House Concurrent Resolution No. 8 of the extra session of 1950, preliminary report of which committee was printed in Journal of the House No. 94, page 1779, respectfully submits the following report:

The former committee had thoroughly investigated gas explosions.

The present committee has concluded its work in connection with transportation of gas through pipelines, rail transportation, truck transportation, distribution of bottled gas, distribution of liquified petroleum gas through pipelines and distribution through gas mains wherever they may be located within the State and safety measures.

Necessary legislation is being prepared to carry out the conclusions of the committee.

Respectfully submitted.

Chairman.

Representative BEN E. LOHMAN,
Representative ANDREW W. COBB,
Representative JOSEPH G. O'CONNOR,
Senator FRANK ANDREWS,
Senator GEORGE N. HIGGINS.

The report was referred to the clerk and ordered printed in the journal.

REPORT OF COMMITTEE ON GASOLINE TAX, PRICES

The interim committee was authorized by House Resolution No. 42. The operative part of this resolution reads:

"*Resolved by the house of representatives*, That a special interim committee composed of five members of the house, to be appointed by the speaker, is hereby created to make an investigation of the relationship between the retail price of gasoline in Michigan and its gasoline tax in comparison with the same relationship in other States, to act in conjunction with the investigation now being conducted by the attorney general;"

It appears to be plain that this language means that the house of representatives wishes to learn whether or not the purchasers of gasoline in the State of Michigan are being charged prices for gasoline which are determined by fair and lawful competitive practices which if employed in the pricing of gasoline would give full weight to low cost transportation of liquid petroleum products over the waters of this State and its efficient system of highways and railways, as well as the numerous other transportation, processing, and storage advantages enjoyed by the sellers and producers of gasoline within the State of Michigan, or whether the people of this State are paying prices based upon the ability of suppliers of gasoline and liquid petroleum products to exact the existing apparently unreasonable prices through exercise of monopolistic practices contrary to the prohibitions of sections 1 to 5 of the Michigan Antimonopoly Statute (Act 255 P. A. 1899.3 Comp. L. 1948, sec. 445.701) which reads:

"Title: An act to prevent trusts, monopolies, and combinations of capital, skill or arts, to create or carry out restriction in trade or commerce, to limit or reduce the production, or increase or reduce the price of merchandise or any commodity; to prevent competition in manufacturing, making, transportation, sale or purchase of merchandise, produce or any commodity; to fix at any standard or figure, whereby its price to the public or consumer shall be in any manner controlled or established, any article or commodity of merchandise, produce or commerce intended for sale, barter, use or consumption.

"SEC. 1. That a trust is a combination of capital, skill or arts by 2 or more persons, firms, partnerships, corporations or associations of persons, or of any 2 or more of them, for either, any or all of the following purposes:

"1. To create or carry out restrictions in trade or commerce;

"2. To limit or reduce the production, or increase or reduce the price of, merchandise or any commodity;

"3. To prevent competition in manufacturing, making, transportation, sale or purchase of merchandise, produce or any commodity;

"4. To fix at any standard or figure, whereby its price to the public or consumer shall be in any manner controlled or established, any article or commodity of merchandise, produce or commerce intended for sale, barter, use or consumption in this State;

"5. It shall hereafter be unlawful for 2 or more persons, firms, partnerships, corporations or associations of persons, or of any 2 or more of them, to make or enter into or execute or carry out any contracts, obligations or agreements of any kind or description, by which they shall bind or have bound themselves not to sell, dispose of or transport any article or any commodity or any article of trade, use, merchandise, commerce or consumption below a common standard figure or fixed value, or by which they shall agree in any manner to keep the price of such article, commodity or transportation at a fixed or graduated figure, or by which they shall in any manner establish or settle the price of any article, commodity, or transportation between them or themselves and others, so as to directly or indirectly preclude a free and unrestricted competition among themselves, or any purchasers or consumers, in the sale or transportation of any such article or commodity, or by which they shall agree to pool, combine, or directly or indirectly unite any interests that they may have connected with the sale or transportation of any such article or commodity, that its price might in any manner be affected. Every such trust as is defined herein is declared to be unlawful, against public policy and void: *Provided, however,* That nothing contained in the provisions of this act shall be construed to forbid producers of farm or dairy products from cooperating or organizing corporations or associations not primarily for profit, for the purpose of insuring and providing a reasonably certain and stable market for, and distribution of, such products upon terms fair and reasonable to the public and to themselves, and bargaining with distributors of such products singly or collectively in relation thereto, nor shall such cooperative undertaking, corporations associations or members thereof be held or construed to be illegal combinations or conspiracies in restraint of trade."

In general "monopolistic practices" are agreements between individuals and/or corporations or acts by individuals and/or corporations which create the power in these persons to control prices or exclude competition.

House Resolution No. 42 directs that this committee "act in conjunction with the investigation now being conducted by the Attorney General," and it seems obvious that an investigation of discriminative pricing as between the various States, if discrimination is eventually found, must of necessity involve monopolistic practices.

The Attorney General has been conducting his investigation of alleged violations of the Michigan antimonopoly statute and other statutes bearing upon illegal trade practices in the pricing of gasoline, as well as the commonly used fuel oils, for a period of approximately 2 years. Thus, in effect, the last quoted clause in Resolution No. 42 facilitates the Attorney General's investigation by affording the use of the power of subpena and makes the findings in said Attorney General's investigation available to the committee in the matter of discriminative pricing, thereby finalizing both investigations at or about the same time.

Thus, in order to fully comply with the requirements of House Resolution No. 42 concerning price discrimination, as well as monopolistic practices, this committee has determined that the refinery cost of all products and the cost of transportation of such products up to the time that the same are delivered o the consumer must first be determined before any final conclusions may be reached as to price discrimination or monopolistic practices since, assuming that a refiner produces gasoline at a cost of 10 cents per gallon and charges a tank-wagon price of 19 cents per gallon in both Michigan and Illinois, and if transportation costs to Michigan were one-half of those to Illinois, despite the fact that tank-wagon prices were identical, a discrimination would exist as against Michigan.

If this committee finds that no discrimination exists, and that the refiners', jobbers', and retailers' profit margins are reasonable, then the investigation need proceed no further. If unreasonableness of profit margins exists on the part of any of the above, then this committee must enter the second phase of the investigation to determine if any monopolistic practices are employed to bring about such result. In other words, this committee must conduct a two-phase investigation, in which each phase might well be found to be of such intermingled nature that neither could be conducted without full consideration of the other. From matters in the files of this committee and matters hereinafter set forth, it seems probable that both phases will need to be fully pursued.

This committee finds that the Standard Oil Co. of Indiana on the following dates increased its dealer tank-wagon gasoline prices in the metropolitan area of the following amounts on the following dates:

From exhibit 4A:

Date	Amount of increase in cents per gallon	Date	Amount of increase in cents per gallon
July 30, 1946	1.0	Oct. 22, 1947	0.8
Aug. 29, 1946	.5	Dec. 15, 1947	1.5
Jan. 27, 1947	1.0	May 6, 1948	.1
Mar. 13, 1947	.5	June 2, 1950	.5
Mar. 26, 1947	.5		
July 25, 1947	.5	Total	6.9

It is a patent truth that all of the major oil companies under investigation here made identical increases on identical or nearly identical dates, and that on the dates of the above-noted increases, the dealer tank-wagon prices were identical [1] for all said companies, and these facts are so well within the public knowledge that this committee deems it of no value that exhibits and testimony be set forth in this report to support the same.

An expert witness, Prof. George F. Hobbs, testified that all of the gasoline sold by the major oil companies selling in Michigan and now under investigation by this committee are for all practical purposes identical in quality in each of the grades known as "regular" and "premium" (transcript p. 358, National Motor Gasoline Survey, U. S. Bureau of Mines, District No. 5). This testimony is further supported by the fact that the majority of the above-mentioned companies made exchanges of gasoline between them for the purpose of saving transportation; for instance; on December 1, 1949, Standard of Indiana received gasoline from the Sinclair Refining Co. at Detroit on the agreement that a like amount of gasoline be returned by Standard to Sinclair at Whiting, Ind. (from exhibit 4c). And it appears that exchanges were also made on a purely borrow-and-return basis. For instance, Standard received gasoline from the Pure Oil Co. at Bay City on December 7, 1949, and returned a like quantity to Pure Oil Co. at Bay City at a later date (from exhibit 4c).

It is apparent that since all except one of the major companies sell an identical product for an identical price no seller competition exists between them. This committee has received evidence that some seller competition does exist in Michigan on the part of companies not now under investigation by this committee, to wit:

One of the largest of the major oil companies sells a premium-test gasoline 2 cents below the price for this grade, and this company does not market any other grade of gasoline. This condition is also true of one of the largest independent companies in Michigan.

One other independent company in Michigan has been selling a gasoline which is equal in quality to the prevailing Michigan test (transcript 361 to 363–364) at a price of 4.8 cents lower than standard price for regular gasoline.

This committee finds with respect to pricing, which from posted tank-wagon prices [2] appear to have been discriminatory, that on May 1, 1950, the posted tank-wagon prices at four cities in the area in which the Standard Oil Co. of Indiana has been the price-setting major company; usually known as the price leader; was on May 1, 1950:

[In cents]

	Posted dealer tank wagon price	State gas tax
May 1, 1950:		
Milwaukee	14.7	4
Chicago	14.	3
Twin Cities	13.4	5
Detroit	15.4	3

[1] This finding may vary somewhat as to parts of Michigan other than the metropolitan area. The exact variation will not be determinable until the completion of the jobber price survey hereinafter referred to is completed.

[2] This price is the amount charged the retail dealer exclusive of all taxes.

On September 1, 1951, the prices in the same cities had advanced as shown below (exhibit No. 10):

	Posted dealer tank-wagon price	State gas tax
Sept. 1, 1951:	*Cents*	*Cents*
Milwaukee	16.1	4
Chicago	15.5	4
Twin Cities	16	5
Detroit	15.9	4.5

Thus it appears that it is fair to infer that the price leader in the area in which the above-named cities are located, and those other companies which followed its price leadership, did exact a lower price for its products in the areas having a higher State gasoline tax than they did in the areas having a lower State gasoline tax. From the matters stated above, it is also fair to infer that the leveling off of prices between May 1950 and September 1951 came about by reason of the fact that the apparent discrimination was more and more becoming the object of public resentment, both private and official, and since there was no seller competition to be reckoned with, the price leader merely decided what price it chose to ask and the other companies under investigation here elected to follow Standard's lead.

The general manager of the distribution economics department of the Standard Oil Co. of Indiana gave testimony which may eventually be shown to be the key to the whole puzzling picture of gasoline pricing in Michigan (transcript record p. 185).

"We come face to face with the first fundamental market condition affecting petroleum-product prices. Where alternate markets may be served from the same source, it is inescapable that the consuming areas must compete against each other to get their respective shares of the available supply. This is not mere theory. This actually represents the basis of the entire price structure east of the Rocky Mountains, as demonstrated upon a study of prices prevailing in the various States."

The above statement plainly spells out "buyer competition." Buyer competition can be accomplished only if a company or a group of companies is able to maintain a continuous scarcity of petroleum products; in other words, to keep the market "hungry." The action of a "hungry" market was well illustrated during the recent automobile shortage. Even though the automobile manufacturers declined to increase their price, due to the shortage of cars, purchasers were anxious to pay hundreds of dollars above manufacturers' list price to the dealer to procure cars. Any action on the part of suppliers of gasoline to Michigan aimed at maintaining a "hungry" market would, if proved, give rise to both a civil and criminal action under the Michigan antimonopoly statute and in many cases might also violate the Federal Sherman Act and its supplementary acts, particularly the Clayton Act and the Robinson-Patman Act.

This committee understands that if its study is to produce recommendations which will lead to stamping out vicious monopoly practices in Michigan, it has a long, hard fight ahead.

The final report of House of Representatives Select Committee on Small Business (p. 104–106) issued after its investigation of the enforcement of the Federal antitrust laws by the Department of Justice and the Federal Trade Commission, sets forth the finding:

"The investigation has disclosed that after 60 years of Sherman Act enforcement, concentration of economic power is greater than ever. Although all of the blame for this situation cannot be placed on the Division, there are many ways in which antitrust enforcement and pro-small-business activity by the Department of Justice can be made more effective."

The report further says:

"The committee believes it essential that all governmental agencies charged with anti-trust-law enforcement present a united front against the forces of monopoly. In the past, the Division frequently had no policy more specific than to prosecute violators as they were brought out in the open."

Counsel for this committee, who has worked very closely with Federal agencies, charged with enforcement of antitrust laws since the commencement of the Attorney General's investigation of alleged violations of the Michigan antimonopoly statute, is of the opinion (and from investigative matters brought before this committee by said counsel, this committee concurs in counsel's opinion) that the findings of the above-named congressional committee are correct and that in the past the growth of monopoly has been facilitated by lack of United States and Federal effort and lack of policy on the part of the Federal Department of Justice, as well as lack of inherent sovereignty in the Federal Government, but that at the present time the Department of Justice does have a definite policy and that such policy is one recommended by the above-named committee. The power to dissolve corporations for prohibit their doing business in States as foreign corporations under permit) who violate State laws is not a power delegated to the United States by the Federal Constitution.

It seems obvious that the power of the Government, which is only that of punishment and injunction, can never bring monopolies under such control as will prohibit exaction of unreasonable prices from the public and stifling independent businesses.

It is therefore the recommendation of this committee that for the purpose of insuring the enforcement of the provisions of Act 255 P. A. 1899 (Michigan antimonopoly statute) and amendment of the same as changing conditions require, a standing committee be appointed by the Speaker (and an appropriation be provided therefor) to work in conjunction with an Antimonopoly Division to be set up within the office of and under the direction of the Attorney General. Said Division to consist of one Assistant Attorney General experienced in antimonopoly law and such other Assistant Attorneys General as the Attorney General shall deem necessary together with such experienced investigative personnel as the Attorney General and the House committee shall deem necessary. That a sufficient appropriation to carry on the work of the Antimonopoly Division be added to the general budget of the Attorney General. That the power to administer oaths, subpena witnesses, and/or to examine books and records of any public agency and of any persons, partnerships, or corporations involved in any matter within the jurisdiction of the Attorney General and/or the standing committee shall be granted jointly and severally to the standing committee and the Attorney General.

From the industrial financial report series of the Federal Trade Commission and the United States Securities and Exchange Commission (exhibits 6 and 8) it appears that as a whole the profits of the petroleum-refining industry in cents per dollar of sales after Federal taxes were as follows:

	Cents
1st quarter	8.2
2d quarter	10.7
3d quarter	10.5
4th quarter	13.0
1951:	
1st quarter	10.2
2d quarter	11.0
3d quarter	10.6
4th quarter report	Not issued at this date

The profits of the petroleum industry led all of the 22 groups of United States manufacturing industries in the first, second, and third quarters of 1951 and the fourth quarter of 1950, and was led only by the chemical industry in the first quarter of 1950 and by only the stone, glass, and clay products industry in the second quarter of 1950 and only by two industries in the third quarter of 1950—the lumber and wood products industry and the stone, glass, and clay products industries.

The petroleum industry asserted before this committee and has often asserted in the public press that the main "cost of living" items have increased rapidly in price, and that therefore petroleum products should be allowed to do likewise. This appears to be a falacious argument, since if a healthy competition exists in any industry, prices will go down with rises in profits.

For the quarters set out above, the three industries manufacturing the main "cost of living" items earned the following number of cents per dollar of sales

after Federal taxes (average for 4 quarters of 1950 and 2 quarters of 1951). (From exhibits 6 and 8:)

	Cents
Food	3.1
Textile-mill products	5.6
Apparel and finished textiles	2.43
Furniture and fixtures	4.76
Lumber and wood products	9.06
Leather and leather products	3.33

Taking the average for the same period as noted above the petroleum industry earned 10.6 cents per dollar of sales after Federal taxes.

Committee work uncompleted

Retail dealer cost survey.—From a cost survey completed in 1950, this committee has determined that the net profit of the retail sellers of gasoline in the Wayne, Oakland, Macomb, and Washtenaw areas is from one- to two-tenths of a cent per gallon of gasoline. The cost upon which this profit is determined, in addition to all other costs recognized by the cost-accounting profession, includes a charge of $1.05 per hour for the time spent by an owner-operator in the operation of his station; thus an owner of a 10,000-gallon per month station who works in the station earns $1.05 times the number of hours worked, plus $20 per month, and the balance of his pay must come from profit on the sale of tires, batteries, and accessories.

Since the jobber operations in the remainder of the State strongly influence the retailer situation (the direct opposite is true in the case of Wayne, Oakland, Macomb, and Washtenaw Counties), an overall profit margin figure for retail dealers will not be forthcoming until the jobber cost survey is completed.

Status of the jobber cost survey.—This committee and its counsel prepared a questionnaire setting forth all of the questions which the committee deemed necessary to a showing of profit margin, price discrimination, pricing practices, and the existence or nonexistence of monopolistic practices by the jobbers or against them.

The questionnaires provided for verification under oath. The committee received exceptionally fine cooperation from the jobbers in execution, verification, and return of the questionnaires to this committee. A preliminary examination of the returns discloses that nearly all jobbers who would normally keep such books as would answer the committee's questions, and who conduct typical jobber operations, have answered. The questionnaires were conditioned that the answers would have the same secrecy as would exist in the case of testimony before the committee in executive session. If it develops that any jobber who should have answered and continuously refused to do so, this committee will require his testimony in open hearings before it upon subpena.

Analysis of the jobber answers will proceed with all possible dispatch, at the end of which time the retail and jobber picture for the entire State will be complete. It must be understood, however, that classification and analysis of the answers will require considerable time due to existence of widely varying conditions in the various marketing areas of the State.

Status of the investigation of prices and pricing practices of the primary supplying companies.—During the month of August 1951, after it had learned the objective of the committee, the area price leader, Standard Oil Co. of Indiana, announced to the press that it was coming before this committee to voluntarily present its books and testimony of its officials on all points in which the committee was interested, and asked that it be allowed to be the first organization to present its case.

The following companies represented to this committee by letter that they welcomed the opportunity to submit records and cooperate with the committee in its investigation:

Socony-Vacuum Oil Co., Inc.
Shell Oil Co.
Cities Service Oil Co.
The Pure Oil Co.
The Texas Co.
The Gulf Oil Co.

The Standard Oil Co. appeared before the committee and denied that it kept any records from which the cost of gasoline and cost of transportation thereof could be determined, and in many other ways, as shown in the transcript of testimony before this committee, indicated a determination to give the committee matters which it wished to put on the record, but at the same time showing a marked reluctance to present matters which the committee deemed necessary to its investigation. The Standard Oil Co. has now admitted by letter to the committee that it does keep cost records desired by the committee.

The committee and its counsel have formulated a questionnaire, which if fully answered will give all of the information needed by the committee to complete the investigation as to pricing and pricing practices, and has forwarded the same to each of 7 major companies named above, 4 of which, the Shell Oil Co., the Gulf Oil Co., the Texas Co., and the Socony-Vacuum Oil Co., have informed committee counsel that they are now actively engaged in assembling the information required. None of the companies have notified the committee of a refusal to supply the information.

All of the companies set forth above have previously received questionnaires concerning monopolistic practices from the committee counsel, who was then conducting the Attorney General's investigation into that phase as it relates to prices.

Recommendations.—Since no refusals to answer questionnaires on the part of any of the companies has been brought to the attention of the committee, it assumes it will be able to complete its investigation by the questionnaire method.[3]

Considerable delay must be expected, since in this phase of the investigation the committee is dealing with corporations in the billion-dollar class and their records will therefore be so voluminous as to require great expenditure of time to provide the committee with the summaries required by it.

Respectfully submitted.

Representative WILLIAM S. BROOMFIELD, *Chairman.*
Representative JOSEPH A. CAVANAUGH.
Representative CLYDE COOPER.
Representative JOHN J. FITZPATRICK.
Representative CYRIL H. ROOT.

Mr. AUSTIN. I believe that statement is included in Mr. Broomfield's opening statement, in the copies you will be supplied.

The committee concluded, after its investigation, that the Standard Oil Co. of Indiana was the so-called price leader out in Michigan, and that they had granted, between July of 1946 and June of 1950, 10 different price increases, anywhere from half a cent to 1½ cents, totaling 6.9 cents.

There was no seller competition between the major oil companies that were invited to participate in this investigation, or to furnish evidence, inasmuch as identity of product was established.

In Michigan, we at that time had a 3-cent gasoline tax, and the State of Illinois also had a 3-cent tax. Wisconsin had 4 cents, and Minnesota had 5 cents.

As of May 1, 1950, notwithstanding the fact that we had as low a tax as any other State, in the metropolitan area of Detroit, gasoline sold, posted to the dealer, at a tank-wagon price of 16.4 cents per gallon.

In Chicago, where the tax was the same, the price was 14 cents a gallon; the Twin Cities of Minneapolis and St. Paul, 13.4 cents; and Milwaukee was 14.7 cents.

By September 1, 1951, this had leveled off somewhat, and by that time the posted dealer tank-wagon price had gone up to 15.9 cents per gallon in Detroit, but it had also risen to higher prices in these other States, and the State gasoline taxes had increased in Michigan a cent

[3] This method was worked out by the committee on the theory that all companies should answer, since if the matters concerned in the investigation were involved in a litigated case, the required information could be gathered under the court rules by submission of interrogatories which are nearly identical with the procedure now adopted by this committee.

and a half, however, at that time, and there was also an increase in Illinois of 1 cent.

So it is reasonable, the committee inferred at that time, that the exact lower price of its product in the areas having a higher State gasoline tax—that there was a lower price of its product in the areas having a higher State gasoline tax than there was in the areas having a lower State gasoline tax.

It was also fair to infer that the leveling off of prices between 1950 and September of 1951 came about by reason of the fact that the apparent discrimination was more and more becoming the object of public resentment, both private and official.

The general manager of the distribution economics department of the Standard Oil Co. of Indiana gave testimony which may eventually be shown to be the key to the whole puzzling picture of Michigan gasoline prices. Here is a quotation from his testimony:

> We come face-to-face with the first fundamental market condition affecting petroleum-product prices: Where alternate markets may be served from the same source it is inescapable that the consuming areas must compete against each other to get their respective shares of the available supply. This is not mere theory. This actually represents the basis of the entire price structure east of the Rocky Mountains, as demonstrated upon a study of prices prevailing in the various States.

The above statement, it was concluded, plainly spelled out buyer competition. The committee further concluded that buyer competition could be accomplished by a company or group of companies maintaining a continuous scarcity of petroleum products. In other words, it was to keep the market hungry.

The committee did not feel that it had sufficient evidence to recommend to the attorney general of Michigan that any prosecutions follow under the Michigan antimonopoly law.

Gasoline prices, I might say, at that time did drop considerably in Michigan, or approximately at that time.

The committee further went on and recommended, then, that a standing committee be set up in our State legislature to cooperate with the attorney general, and recommended that the attorney general's office set up an antimonopoly division in his office.

That is all, gentlemen. Thank you.

Mr. BROOMFIELD. I might also add, Mr. Chairman, that in Detroit these increases have amounted to more than 50-percent increase since the ceilings have been removed. In other words, at the time the ceilings were removed, regular gasoline was selling for 19 cents a gallon, and today it is selling for 30 cents a gallon.

Again we are down here in the hope that we may cooperate with you in this investigation—to what extent I do not know—but we are here in the hope that you can inform us what we can do on a State level.

Mr. BENNETT. Mr. Chairman, may I ask a question here?

Mr. Broomfield, what has happened in Michigan and Detroit lately that has caused your committee to renew its interest in this problem?

Mr. BROOMFIELD. This started about 2 or 3 months ago when the first increase was presented throughout the State of Michigan. There was about a 2.8 increase at that time. We felt that, inasmuch as the 1951 investigation was not completed, that we would again attempt to complete the investigation.

Then, a few weeks ago, they increased gasoline again another cent, making it a total of 3.8, and consequently, when we heard that your committee here was starting an investigation in the same field, we took the opportunity to come down to talk it over with you.

Mr. BENNETT. Have you contacted any of the oil companies, producing or sales companies, in Detroit and in Michigan, in order to find out from them, if you could, why these increases in prices were being made at this time?

Mr. BROOMFIELD. No, Congressman Bennett; we did not do that because we felt it was necessary, first, to come down to Washington to determine what the scope of the investigation on a Federal level was going to be. We felt also that we did not want any duplication of hearings, and we also felt that it was necessary for this congressional committee to hold hearings in Detroit, inasmuch as you had additional powers and could certainly reach to the bottom of the investigation.

Mr. BENNETT. Are there any factors that your committee has been able to find that appear to justify a raise in the price of gasoline at this time—that is, a shortage of supply or an increase of production costs or any factors of that kind?

Mr. BROOMFIELD. I would say on that question we haven't got into the investigation far enough to even comment on that—to find out whether they were justified or not.

Mr. BENNETT. As far as you can see, there has been no change, apparent on the surface, at least, that would justify any substantial increase in these prices at this particular time?

Mr. BROOMFIELD. I would say that that is correct. I would also say it was poor public relations on the part of the petroleum companies themselves not to clarify and clear the air as to the need for these increases.

The CHAIRMAN. Are there any other questions?

Mr. HESELTON. What is the situation in Michigan as to the prices of heavy and light fuels? Have prices gone up on them?

Mr. BROOMFIELD. I would not be able to comment myself. Would any of the other members answer that?

We would not be able to comment.

Mr. HESELTON. I know Michigan is party to the interstate oil compact, but I do not know what the supply situation is in Michigan and how big an operation that is. Is it substantial?

Mr. BROOMFIELD. Yes, it is.

Mr. HESELTON. How does the State agency operate in terms of setting the allowables in Michigan?

Mr. BROOMFIELD. That is under the conservation department.

Mr. HESELTON. Do they relate that to any degree to estimates of demand presented to them by the oil companies?

Mr. BROOMFIELD. I think that is taken into consideration, yes.

Mr. HESELTON. Did your committee go into that phase of it?

Mr. BROOMFIELD. No, we did not; not to any great extent. We just barely touched on that phase of it.

Mr. HESELTON. I notice that nationwide on gasoline, as of last Monday, there was an increase in stocks in the amount of 27,922,000 barrels over a year ago. You said to Mr. Bennett that you have not any current information as to the stock position in Michigan.

Mr. BROOMFIELD. That is right.

Mr. HESELTON. But has there been any comment since the latest increases to the effect that the stock position is satisfactory, and is not a factor in requiring this increase? I do not know whether you have experts in your committee.

Mr. BROOMFIELD. I would rather not comment on that one. I am not in a position to comment on that particular question.

Mr. HESELTON. That is all.

The CHAIRMAN. Any further questions?

Mr. SPRINGER. I would like to ask you this question: When was the last raise in the general price of crude oil?

Mr. BROOMFIELD. It was approximately 2 weeks ago.

Mr. SPRINGER. Before that, when was the last increase?

Mr. BROOMFIELD. On May 9, it was raised 2.8.

Mr. SPRINGER. That is 2.8 cents per gallon?

Mr. BROOMFIELD. That is right.

Mr. SPRINGER. Or per barrel?

Mr. BROOMFIELD. Per gallon, at the station.

Mr. SPRINGER. When was the last increase before that?

Mr. BROOMFIELD. Well, again I would say it would go back to approximately 1951. In other words, I might be wrong on that. The last one we have in our report is June of 1950.

Mr. SPRINGER. How much was it raised in June of 1950?

Mr. BROOMFIELD. One-half cent.

Mr. SPRINGER. What is that?

Mr. AUSTIN. One-half cent a gallon.

Mr. SPRINGER. In May of 1953, it was raised 2.8 cents per gallon at the station?

Mr. BROOMFIELD. That is right.

Mr. SPRINGER. And now it is raised another cent?

Mr. BROOMFIELD. That is right.

We are talking about the metropolitan area. It is higher in some of the rural areas throughout Michigan, and 32 is not the top price of retail gasoline in Michigan. There are areas where it is selling at 32.9, by a recent survey by the United Press.

Mr. SPRINGER. Are you talking about standard or high octane gasoline?

Mr. BROOMFIELD. That is for regular gas.

Mr. SPRINGER. Do you know the raise that was made before June of 1950?

Mr. BROOMFIELD. May 6 of 1948, it was increased 0.1 of a cent.

Mr. SPRINGER. One-tenth of 1 cent?

Mr. BROOMFIELD. That is right.

Mr. SPRINGER. Do you have the one before that?

Mr. BROOMFIELD. Yes, I do.

Mr. SPRINGER. Since the end of World War II.

Mr. BROOMFIELD. We have 10 of them. In other words, they started back the seventh month of 1946, and if I may read down, I will.

Mr. SPRINGER. Wait just a second, and I will get that. What year was that?

Mr. BROOMFIELD. In 1946, in July, it increased 1 cent.

Mr. SPRINGER. That is 1 cent?

Mr. BROOMFIELD. Yes.

Then in the eighth month, it increased a half-cent.

Mr. SPRINGER. That is in August?

Mr. BROOMFIELD. That is right.

Mr. SPRINGER. It increased how much?

Mr. BROOMFIELD. Half a cent.

Then in January of 1947, it increased 1 cent.

Mr. SPRINGER. All right.

Mr. BROOMFIELD. And in March of 1947, it increased a half a cent.

Mr. SPRINGER. All right.

Mr. BROOMFIELD. And in the same month, it increased another half a cent, the same year and the same month.

Then in July of 1947, it increased a half a cent.

Then in the 10th month, it increased a cent and a half.

Mr. SPRINGER. That is October; is that right?

Mr. BROOMFIELD. That is right.

Mr. SPRINGER. How much in October?

Mr. BROOMFIELD. A cent and a half.

Then in December of 1947, one-tenth.

Then in May of 1948, it increased one-tenth of 1 cent.

Then in June of 1950, a half on 1 cent.

It brings the total up during that period to 6.9.

Mr. SPRINGER. Now, what percent of increase is that in that period of time? What percent of increase is that?

Mr. BROOMFIELD. It would be awfully hard to determine here, with just these figures before us.

Mr. AUSTIN. We do not have the complete sales price before us, sir.

Mr. SPRINGER. How much was it then? This June increase makes the total what, in Detroit? What is your price?

Mr. BROOMFIELD. We don't have that at all. If you are referring to June of 1953——

Mr. SPRINGER. Yes. How much was gasoline at Detroit?

Mr. BROOMFIELD. It has been a 50-percent increase. In other words, that is what we are trying to point out. In other words, between July of 1946 and the present time, in Michigan, there has been a 50-percent increase in the retail value of gasoline.

In other words, taking the price of July of 1946, regular was selling in Detroit for approximately 19 cents a gallon.

Mr. SPRINGER. How much of that is tax?

Mr. BROOMFIELD. The State tax?

Mr. SPRINGER. How much is the total tax?

Mr. BROOMFIELD. I would rather submit that information to you. We have all of that.

Mr. SPRINGER. How much is the State tax?

Mr. BROOMFIELD. It is 4.5.

Mr. SPRINGER. And your Federal tax is 2 cents, is that right?

Mr. BROOMFIELD. Yes.

Mr. SPRINGER. That is 6.5 cents, and that would make it 12.5, would it not? Now, you have had an increase of 6.9 in that period of time, is that correct, so you are figuring that is a 50-percent increase in the price of gasoline, excluding taxes?

Mr. BROOMFIELD. That is right.

Mr. SPRINGER. Has there been any increase in tax during that time?

Mr. BROOMFIELD. You see, here is what happened. We do not have those records with us, and that is why I would like to submit them to this committee, but back in 1951 we increased our gasoline tax 1.5,

and in other words, we were having just a 3-cent gasoline tax in Michigan, so we increased it to 4.5, and that is what it is at the present time.

Mr. SPRINGER. Let me ask you this: How does this so-called 50 percent compare with the general increase in the cost of living?

Mr. BROOMFIELD. I am not in a position to even debate that, Congressman. That is something that I can't determine. I am just merely pointing that out as a statement of fact, that it has increased in the Detroit area that much.

Mr. SPRINGER. What I am trying to find out, if you know, and of course if you do not know, I will certainly not ask you the question or pursue it further—but how does that compare with the general increase in the cost of living in the Detroit area, the increase in the cost of living?

Mr. BROOMFIELD. Again, I would rather not comment on that. I am not in a position to. I wouldn't know.

Mr. SPRINGER. You do not know the answer to that?

Mr. BROOMFIELD. I don't know.

Mr. SPRINGER. Do you know how wages have followed this pattern of increase?

Mr. BROOMFIELD. I can't give you the relationship between the two.

Mr. SPRINGER. Do you have anybody who can?

Mr. BROOMFIELD. I don't have anybody here. In other words, our coming up here today was in the hope it would be more or less on an informal basis, and not be subject to any questioning, because we weren't prepared, and we came up here to tell you the position of the State of Michigan, how we felt about these increases. And certainly we will go along 100 percent in the questions that have been outlined by the chairman, that certainly they would air this problem that is of mutual concern to everyone.

Mr. SPRINGER. Do you think these raises in your area have been exorbitant?

Mr. BROOMFIELD. That, again, I would not want to prejudge until the investigation was completed.

Mr. SPRINGER. I believe that is all, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

Mr. CARLYLE. I want to ask a question.

I understood you to say that the retail price of gasoline was higher in Michigan than any State in the Union; is that correct?

Mr. BROOMFIELD. That is a misstatement, and I hope you did not get that interpretation from my remarks.

Mr. CARLYLE. I thought you answered to that effect.

Mr. BROOMFIELD. I said of the 10 major cities, Detroit——

Mr. CARLYLE. What is the price of gasoline in Michigan compared with the other States of the Union?

Mr. BROOMFIELD. I might say that is the intent of our investigation, to find out that relationship.

Mr. CARLYLE. That would not be difficult to ascertain, would it?

Mr. BROOMFIELD. Probably not.

Mr. CARLYLE. You have no idea at this time as to whether the people of Michigan are paying more for gasoline than the average State in the Union?

Mr. BROOMFIELD. No, definitely not. I think that our main concern is to find out whether it prevails among other States, and whether

Michigan is being discriminated against in relation to the other States.

Mr. CARLYLE. Well, it would not take a day to find out what gasoline is selling for in the other States, would it?

Mr. BROOMFIELD. Well, maybe not.

Mr. CARLYLE. That is all.

The CHAIRMAN. I think we should take into consideration the fact that this committee has come to us from the State of Michigan as a committee that is inquiring into the subject in the same manner that this committee is inquiring into the subject; and for the same reasons that members of this committee might hesitate to make definite statements until their inquiry is completed, it would not be expected of the State committee that they would make definite answers until they have completed their investigation.

I want to say to the committee that has come to us from the State of Michigan that we greatly appreciate the interest in the subject that has prompted your coming and visiting with us, and offering your cooperation and requesting our cooperation in return, in meeting a common problem.

If there has been an increase of 50 percent in the price of gasoline to the public in the State of Michigan, it indicates to me that it might be appropriate for this committee to extend its inquiry to include an ascertainment of whether there have been similar increases in other States, or to what extent there have been increases in other States.

I realize that a State body is in a handicapped position as compared to a committee of Congress that has at its disposal all of the departments of Government that make these studies and keep these records from day to day, and throughout the Nation, and therefore I would assume that this committee would be in a position, probably, to answer some of the questions that have been propounded to you which, because of your limited facilities, you are not able to answer.

Mr. YOUNGER. Mr. Broomfield, what kind of a bureau or commission do you have in the State of Michigan for regulating utilities?

Mr. BROOMFIELD. A public-service commission.

Mr. YOUNGER. A public-service commission?

Mr. BROOMFIELD. Yes, sir.

Mr. YOUNGER. In your investigation in the past, was there any intimation at all or any evidence on the part of anybody that considered gasoline a utility?

Mr. BROOMFIELD. I would like to say this, before Mr. Jeffries answers that: One of our members, of course, has a definite idea about that, but I want to make it very clear he is expressing his own views and not the views of our committee.

The CHAIRMAN. That very frequently happens in this committee, as well.

Mr. BROOMFIELD. I just want to clarify it.

Mr JEFFRIES. Mr. Chairman and Mr. Younger:

I will request the Michigan Members of Congress to propose Federal control of petroleum, and I, as a member of the Michigan House of Representatives, will introduce legislation or go by initial petition, to bring the petroleum industry under the control of the Michigan Public Service Commission, intrastate in the State of Michigan.

Mr. YOUNGER Well, what I was after was this: In the hearings that you held out there, was there any development of that idea?

Mr. BROOMFIELD. Definitely not.

Mr. YOUNGER. There was not?

Mr. BROOMFIELD. No.

Mr. YOUNGER. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions, gentlemen?

Mr. HARRIS. First I should like to say that I regret I was not here to have the benefit of the statement that you gentlemen have presented to this committee.

I assume, you have been selected by your legislature as a committee to make a study of the petroleum situation within your State.

Mr. BROOMFIELD. That is correct.

Mr. HARRIS. Is it a special investigative committee of your State legislature?

Mr. BROOMFIELD. That is right, an interim committee.

Mr. HARRIS. Now, did I understand you to say, in response to a question of Mr. Younger, that there would be an effort to bring the petroleum industry, as such, under the jurisdiction of the public-service commission as a utility?

Mr. BROOMFIELD. That is an expression by one of our members, and not the expression of the committee.

Mr. HARRIS. Of course, your pipelines are already subject to the jurisdiction of your commission within your State.

Mr. BROOMFIELD. That is right.

Mr. HARRIS. And your refineries, I assume, are not. In other words, they are not considered as a utility, and therefore would not come within the jurisdiction of the State commission.

Mr. BROOMFIELD. That is right.

Mr. HARRIS. Do you have any substantial crude production in your State?

Mr. JEFFRIES. I really don't know what the production is.

Mr. AUSTIN. I would say "Yes."

Mr. BROOMFIELD. I would say it is substantial.

Mr. HARRIS. Do you have a State regulatory commission?

Mr. BROOMFIELD. Yes, we do, that is, a conservation department.

Mr. HARRIS. A conservation department?

Mr. BROOMFIELD. That is right, sir.

Mr. HARRIS. I assume you are going to run right head on into your conservation commission with the proposal that you have just mentioned with reference to bringing in the petroleum industry, as such, as a utility. But that is your own local problem.

I realize the difficulty in answering some of the questions propounded here this morning. I fully appreciate, as you have expressed, the reasons that motivated your appearance here today. But may I inquire if, in Michigan, you do have substantial refining capacity?

Mr. AUSTIN. I would say "Yes."

Mr. HARRIS. Do you have refining capacity in your State sufficient to supply the needs of your State?

Mr. BROOMFIELD. Definitely not. I would say probably a fair average would be about 20 percent would be produced in Michigan. In other words, I would think that would be a conservative estimate.

Mr. HARRIS. Where does the 80 percent come from?

Mr. BROOMFIELD. That would be out of State and through the pipelines, from Texas and different places like that.

Mr. HARRIS. I wil put it this waly—and I know it would be difficult to answer that question—but does a substantial amount of the

supply for Michigan come from the Midwestern area, or do you have substantial quantities that come from the Southwest, or some other area?

Mr. BROOMFIELD. I would not be able to comment on that one.

Mr. HARRIS. You mean you do not have the information?

Mr. BROOMFIELD. I do not have the information.

Mr. HARRIS. Do I understand that you are to supply this committee or to fill in the record with certain information that you presently do not have?

Mr. BROOMFIELD. We would be glad to do that, yes, sir.

Mr. HARRIS. If you do have that information, would you supply it for the records?

Mr. BROOMFIELD. Yes, very definitely. We came here today on a very humble basis, hoping that this congressional committee might clear the air, not only in Michigan—and of course, that is where we are primarily affected and interested—but throughout the Nation.

We are not in here to try to prejudge the whole situation, and we can't say that the petroleum companies are wrong. But certainly there needs to be a lot of clarification because of these recent increases.

The people of Michigan are very much alarmed at these ever-increasing rate increases, and certainly want to know when they are going to stop and when they have reached their peak.

Mr. HARRIS. Now, the price of crude has not changed until June of this year, since 1947, has it?

Mr. BROOMFIELD. I do not have that information.

Mr. SPRINGER. If the gentleman will yield, I will supply the answer to that. It has not since 1947. I looked it up.

Mr. HARRIS. That was my understanding.

Mr. BROOMFIELD. May I clarify my point? We are here on an humble basis, because we in the Michigan Legislature know that we are very limited in power to do anything about it, and certainly we are coming to the right congressional committee that can do something about it, because you do have the power.

Mr. HARRIS. We fully appreciate the fact that such a great percentage of your product is interstate commerce, and consequently you are limited in your authority as to the extent to which you can go into the matter.

The CHAIRMAN. If the gentleman will yield a moment, on this play on humility that we have just had, being humble—I have wondered what could have been the motivating cause of the adoption of the name "Humble" as one of the largest oil companies.

Mr. HARRIS. If I may reply to that, I do not know anything about it, but I would say that the fact that it was a subsidiary company might to some extent explain it.

Now, I wonder if you have had a chance to see the indexes of the cost of steel?

Mr. BROOMFIELD. No, I have not.

Mr. HARRIS. Would you say that the cost of steel would have anything to do with either the increase or the decrease in petroleum product prices?

Mr. BROOMFIELD. I do not know the answer to that.

Mr. HARRIS. Well, most any layman would understand whether or not the cost of the product that is necessary to go into the industry would have anything to do with the price.

Mr. BROOMFIELD. That is very true.

Mr. HARRIS. Now, would you say that the cost of labor would have anything to do with the final determination as to the price of any product?

Mr. BROOMFIELD. Very definitely.

Mr. HARRIS. Do you have any information as to the adjustment of the cost of labor since 1947 in the petroleum industry, in your State?

Mr. BROOMFIELD. I think we have that material at our office; yes.

Mr. HARRIS. Has it been up or down?

Mr. BROOMFIELD. Again, I wouldn't be in a position to answer that, because I have not refreshed myself on all of the material that we have at our hands. In other words, our investigation has not started as yet.

Mr. HARRIS. Well, I think, Mr. Chairman, I will refrain from any further questions, because I understand the position these gentlemen are in.

The CHAIRMAN. Are there any further questions?

Mr. HESELTON. If the witnesses have concluded on this phase, I would like to make a brief preliminary statement about the situation in New England.

The CHAIRMAN. Very well.

Mr. HESELTON. I have attempted to get exact information, but it has not come to me. However, I would like the record to show, immediately after the information we have received as to Michigan, what I have been able to determine which is related, I think, to the Boston market. It is only up to the 1st of June. There have been increases since then, I think, and I think actually two.

On the 1st of June, the price of regular gasoline in Boston was 27.8 cents a gallon, as against 26.5 on June 1, 1952. For that period, the national increase in price was only 0.02 cent a gallon. The price in Boston went up more than six times the national increase.

Increases in Boston took place when decreases elsewhere were occurring, and in fact, in New England itself. For example, in Portland, Maine, it dropped 3 cents during the year; half a cent in Connecticut.

The increase for Boston is not the largest of any of the 50 reporting cities, and I am not certain but what Detroit may have even a larger increase, but it is among the top increases in the country.

I hope to have, before the hearings are concluded, an up-to-date statement of the whole picture.

The CHAIRMAN. That, of course, will be the endeavor of our committee, Mr. Heselton.

Is there any further questioning?

If not, may I again express on behalf of the committee our appreciation of the interest that has brought you here today to participate in these hearings, and certainly we appreciate your desire to be helpful to this committee, and we trust that what we may do may prove equally helpful to you.

Mr. BROOMFIELD. Thank you very much.

The CHAIRMAN. Now, General Arnold, will you make your statement?

STATEMENT OF GEN. MILTON W. ARNOLD, VICE PRESIDENT, OPERATIONS, OF THE AIR TRANSPORT ASSOCIATION OF AMERICA, WASHINGTON, D. C.

General ARNOLD. Mr. Chairman and gentlemen, we greatly appreciate the opportunity to present a statement.

My name is Milton W. Arnold. I am vice president, operations, of the Air Transport Association of America, which represents practically all of the scheduled airlines operating under the American flag.

We appreciate the opportunity to discuss the recent gasoline price increases with your committee. We are in no position to determine whether these price increases are justified, because we do not know enough about the gasoline and oil suppliers' business to be able to reach a judgment on it. Presumably there will be other witnesses before the committee who can explain these increases. However, we do know what effect these price increases are going to have on our business, and it will be my purpose, in a very brief statement, to state the facts as to that aspect of the problem.

During 1952, the scheduled domestic airlines consumed 583.9 million gallons of aviation gasoline and 6.9 million gallons of aviation oil in domestic operations, at a cost of $102,200,000. During the same period the scheduled United States international carriers consumed 181.2 million gallons of gasoline and 1.9 million gallons of oil at a cost of $42,800,000. The grand total of both domestic and international operations was 765.1 million gallons of aviation gasoline and 8.8 million gallons of oil consumed at a cost of $145 million.

During 1953, the total consumption of aviation gasoline is estimated to exceed 900 million gallons, with a corresponding increase in oil consumption and costs. It is further estimated that during the calendar year 1954, the scheduled airlines will burn about 1.2 billion gallons of aviation gasoline.

Generally, airline contracts for aviation gasoline have a price escalation based upon either the price of crude oil which is pegged in a general field area, or the price of second structure or regular motor gasoline. Increases in the price of crude oil generally affect aviation gasoline to the extent of two-tenths of 1 cent per gallon for each 5-cent-per-barrel increase in crude. Consequently, a 25-cent-per-barrel increase in the price of crude will result in a 1-cent-per-gallon increase to the airlines for aviation gasoline.

Airline contracts for aviation oil, while not affected by the escalator clause, usually provide for price increases under appropriate circumstances. The increase in the price of crude oil will affect these contracts, also.

Thus, the effect of the recent increase of 25 cents a barrel in crude oil prices will cost the airlines during 1954 an estimated $12 million more than has been budgeted for that purpose. With that increase in expenses, the first question that comes to mind is whether or not this increase can be absorbed by the airlines, or whether it will be possible to pass it on to the consumers of our service. In view of the character of the air-transport business and its regulation, the airlines cannot, and have not, automatically passed on to their customers increases in their costs. Notwithstanding the increase in general price levels since the war of 80 to 90 percent, the airlines' prices to their customers have increased only 10 percent.

We have made every effort in the past to absorb, through increased operating efficiency, increases of the type we are about to experience here, but it is obvious that the airlines cannot continue to follow this practice forever. This increase in expense of $12 million amounts to approximately 10 percent of the total net profit of the industry in 1952 before taxes ($116,962,375), and 20 percent of the industry's profit after taxes ($60,580,875) in that same year.

In order to keep the industry's profits at a reasonable level, considering the burdens with which the airlines are faced, it might be determined as feasible and wise to increase rates to absorb this increase in cost, but in view of the fact that the airlines compete vigorously among themselves, and are in competition with the railroads, the passenger automobiles, and other forms of transportation, it may not be possible. In addition, our rates are subject to regulation by the Civil Aeronautics Board, as public-utility rates usually are, and we cannot forecast the reaction of the Board to any proposed increase on our part.

Thus, for all of these reasons, we are unable to advise the committee whether the airlines will be required to absorb this increase in expense, or will be able to recover this amount by rate increases.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. Are there any questions, gentlemen?

Mr. HESELTON. General Arnold, in connection with your international operations, do you purchase from other companies than our domestic oil companies?

General ARNOLD. Yes, Mr. Heselton. Generally, those are controlled through the export of American industry, and a great deal of those are subsidiaries of or a minor amount of stock is held by United States corporations; and so, generally speaking, I would say somewhere between 70 and 80 percent of our purchases are direct United States.

Mr. HESELTON. Has it come to your attention that there have been any comparable increases in cost of gasoline in other countries?

General ARNOLD. Yes, sir. They practically parallel those of the increases experienced in the United States.

Mr. HESELTON. That is all.

The CHAIRMAN. Are there any further questions?

Mr. SPRINGER. General, I notice in your statement on page 2 that your general price increases have only been 10 percent in fares since the end of the war.

General ARNOLD. Yes, sir.

Mr. SPRINGER. How much have they been since 1938?

General ARNOLD. Mr. Tipton can answer that, but as I understand, there has been a reduction since 1939.

The question is as to what is the relative increase or decrease of rates of scheduled carriers today over or under 1939.

Mr. TIPTON. There has been a reduction since 1939, but I can't state exactly what it has been.

Mr. SPRINGER. It has been 2 percent or 5 percent or 10 percent? That is all I want to know.

Mr. TIPTON. It has been a modest reduction. The rates are just slightly lower, perhaps 2 or 3 percent, than they were in 1939.

Mr. SPRINGER. But since 1946, it has only increased 10 percent?

Mr. TIPTON. That is right.

Mr. SPRINGER. I presume, General, this has been due to the increased operating efficiency.

General ARNOLD. Yes, sir, and greater utilization.

Mr. SPRINGER. Greater utilization of equipment?

General ARNOLD. That is right, and more efficient type of aircraft, sir. There are many factors, as you well appreciate, in the terrific expansion that the air industry has undergone since 1941.

Mr. SPRINGER. I believe that is all.

Mr. HARRIS. The volume of traffic has had a lot to do with it, too, has it not, General?

General ARNOLD. That was the controlling factor, sir. In other words, we expanded because of the increased demand, sir.

Mr. HARRIS. That is true, and due to the fact that you had such a tremendous increase in the volume of traffic, you were able to absorb some of these increases.

General ARNOLD. Yes, sir, and we are desirous of absorbing more of them.

Mr. HARRIS. How much increase have you had in your wage level since 1946?

General ARNOLD. By the gross weight of aircraft that we are operating? Is that what you have reference to? The DC–3 was the workhorse of the airlines in the 1940's and late 1930's, and 26,500 is the allowable, or 25,200. And today we are operating aircraft with 100,000, in round numbers.

Mr. HARRIS. Well, I am glad to have that information, but you misunderstood me. I said "wages" instead of "weight."

General ARNOLD. I think it would be a lot easier to determine the wage level of different categories. In other words, I think it would be difficult to lump them all together. We would have to use the white-collar people, the mechanics, and then the crews.

Mr. HARRIS. Can you give an average?

General ARNOLD. Since 1946, the wages of the airlines, on a general scale, would be a minimum of 35 or 40 percent, wouldn't you say, Mr. Tipton?

Mr. TIPTON. That is certainly the minimum.

General ARNOLD. It is somewhere between 35 and 40 percent as a minimum, sir. That is the increase in the general wage scale.

Mr. HARRIS. A minimum of 35 or 40 percent?

General ARNOLD. Yes, sir.

Mr. HARRIS. Now, the cost of equipment, has that increased since 1946?

General ARNOLD. Since 1946? Well, in all essence, there were no aircraft available except surplus in 1946, so we cannot use those figures or should not, should we?

Mr. HARRIS. I will say in the last few years, has there been an increase?

General ARNOLD. I think we would like to pick on about 1947 or 1948. Let us use the DC–6 and the Boeing 377. Those aircraft originally were sold for $750,000, and the Constellation; and I believe about $1,300,000 for the Boeing 377.

Today, the new DC–6's, practically the same aircraft, are selling for approximately 100 percent more, and the Constellation, too, and they are approximately at $1½ million; whereas they were three-quarters of a million dollars in 1947 and 1948.

Mr. HARRIS. In all fairness, you will, I assume, agree that the improvement in the airplanes has had something to do with the increased costs.

General ARNOLD. No, sir. I was using the same airplane.

Mr. HARRIS. The same airplane?

General ARNOLD. Yes, except it is about 26 inches longer, and it has a slightly greater increased efficiency in a new type engine, which couldn't, in all essence, in the cost of materials and labor couldn't cost over 10 percent more.

Mr. HARRIS. That is a very interesting figure.

General ARNOLD. Mr. Harris, may I add that we are looking forward rather reluctantly to talking about paying 2½ to 4 million dollars for a jet.

Mr. HARRIS. Well, the point here we have is the justification, or whether there has been a justification of increases in certain products.

General ARNOLD. Yes, sir.

Mr. HARRIS. It is a generally understood and known fact that the economy itself has expanded in the last 5 or 6 years, has it not?

General ARNOLD. Yes, sir.

Mr. HARRIS. That is all.

The CHAIRMAN. Are there any further questions, gentlemen?

If not, we thank you, General Arnold, for your appearance this morning, and the contribution you have made to the inquiry of this committee.

General ARNOLD. Thank you, Mr. Chairman. We appreciate the privilege.

The CHAIRMAN. The next witness is Mr. Jack Garrett Scott, general counsel of the National Association of Motor Bus Operators.

STATEMENT OF JACK GARRETT SCOTT, GENERAL COUNSEL OF THE NATIONAL ASSOCIATION OF MOTOR BUS OPERATORS

Mr. SCOTT. Mr. Chairman and gentlemen of the committee, my name is Jack Garrett Scott, and I appear here as general counsel of the National Association of Motor Bus Operators which is the national trade association of the intercity motor bus industry.

Since the end of World War I the intercity bus industry has become an increasingly important part of our national transportation system. Although the fact is not well known, our industry transports more passengers annually in intercity service than the railroads. Literally thousands of American communities are dependent upon the motorbus as the only means of public transportation. An overwhelming majority, probably 80 percent or more, of the carriers supplying these essential services are small businesses; hundreds of them gross less than $50,000 per year.

The impact of increased costs of any nature upon the entire motorbus industry is serious, particularly in the light of a continuing decline in patronage resulting from the tremendous increase in the use of private automobiles. Current estimates indicate a drop of about 6 percent in the volume of bus travel from last year. But the burden falls especially heavily upon the hundreds of small carriers who supply essential community services; this is so for a number of reasons.

First, the smaller carriers generally operate in areas where travel, essential though it is, is often comparatively light in volume. Secondly, many of these smaller operators are not in a position to purchase fuel at wholesale rates or to take advantage of long-term contracts. Finally, and most importantly, these carriers as a group, due to the factors noted above in combination with other unfavorable trends, are operating desperately close to the red. Many of them are actually operating at a loss. During the first quarter of 1953, the smaller intercity carriers (those with annual revenues between $200,000 and $750,000) which report to the Interstate Commerce Commission showed an average operating ratio of 104.90, that is, their expenses amounted to $104.90 for every $100 of gross revenue. Figures are not available for carriers with annual revenues under $200,000, but past studies show unmistakably that their operating ratios would be even higher. While it is true that the first quarter is typically the poorest in this industry, these same carriers, as a group, showed an operating ratio of 96.07 for the entire year 1952. It is generally conceded that no intercity carrier can continue to operate for very long with an operating ratio of this magnitude.

It should be noted that the bus industry, unlike most enterprises, is in no position to pass on increased costs to the ultimate consumer more or less automatically. In the first place, bus fares are regulated by Federal, State, and local agencies, and approval of any increases in rates is typically a difficult and time-consuming process. Moreover, the carrier must absorb the increased costs during the proceedings, which often continue for months. Equally important is a rather rigid economic ceiling on bus fares. Increases beyond a certain point tend to result in (1) loss of patronage through further use of private automobiles or (2) fares beyond the means of the lower income groups who depend heavily upon the motor bus for essential transportation.

Under those circumstances, it is clear that any increase in costs, however small, is serious. The cost of fuel (including State taxes levied thereon) used by intercity motor busses amounts to somewhat more than 10 percent of total operation and maintenance expenses of the carriers engaged in such operations. Excluding taxes thereon, fuel costs amount to approximately 7.5 percent of such operating expenses. At first glance, these figures seem relatively unimportant by comparison with other more impressive items such as payrolls. But, as noted above, any increase is vitally important in the circumstances. For instance, an increase in fuel prices of 2 cents per gallon over those in effect during the first quarter of 1953 would actually result in an increase of more than 1 full point in the operating ratio of the small carriers. It might be noted that recent retail price increases effected by certain companies in the Washington area totaled just short of 2 cents.

We have prepared a table which is attached to this statement and which shows the effect of specified increases in fuel costs on the operating ratios of large and small carriers computed on the basis of operating records during the year 1952 and the first quarter of 1953. This tabulation makes clear the heavy impact of increased fuel costs on this essential service industry. I respectfully request that the table be made a part of the record.

The CHAIRMAN. The table will be included as a part of your statement.

(Table submitted by Mr. Scott follows:)

Estimated effect of specified increases in fuel costs on operating ratios of class I intercity motor carriers of passengers

	All carriers	Large carriers [1]	Small carriers [2]
YEAR 1952			
Revenue per vehicle-mile (cents)	40.30	41.08	33.37
Expense per vehicle-mile (cents)	35.48	35.87	32.06
Operating ratio:			
At current fuel prices	88.04	87.32	96.07
With per gallon increases of:			
1 cent	88.46	87.73	96.58
2 cents	88.86	88.12	97.06
3 cents	89.28	88.53	97.57
FIRST QUARTER 1953			
Revenue per vehicle-mile (cents)	37.68	38.53	30.83
Expense per vehicle-mile (cents)	36.47	36.98	32.34
Operating ratio:			
At current fuel prices	96.79	95.98	104.90
With per gallon increases of:			
1 cent	97.24	96.42	105.45
2 cents	97.66	96.83	105.97
3 cents	98.12	97.27	106.52

[1] Annual revenues of $750,000 or over.
[2] Annual revenues of $200,000 to $750,000.

Source: Revenues, expenses, and operating ratios for 1952 and 1953 from reports to ICC of carriers. Estimated operating ratios computed on the basis of analyses of reports to ICC.

The CHAIRMAN. Are there any questions? If not we are grateful to you, Mr. Scott, for your appearance and for the contribution that you have made.

Mr. SPRINGER. Might I ask just one question: How much have your rates increased since 1946?

Mr. SCOTT. Well, let me start this way: They have actually decreased since 1934. In 1934 they were 2½ cents, approximately, per passenger-mile. Now they are approximately 2 cents per passenger-mile. There has been some increase since the end of the war.

Mr. SPRINGER. Could you state in general terms the percentage?

Mr. SCOTT. It is about 5 percent, I think. I could give it to you in passenger-miles. It was 1.6 on the average in 1946, and it is approximately 2 cents per passenger-mile now. That makes four-tenths of 1 cent increase.

Mr. SPRINGER. That is about 23 percent.

Mr. SCOTT. That is about right; yes.

Mr. SPRINGER. That is all.

Mr. HARRIS. Now you say there is some importance to the fact that they have actually decreased since 1934. What did you pay for gasoline late in the 1920's?

Mr. SCOTT. We didn't pay as much as we are paying now, but I don't know.

Mr. HARRIS. Are you sure of that?

Mr. SCOTT. It would be my guess and it is only a guess. We are paying a lot more for everything else.

Mr. HARRIS. I suggest to the gentleman that he check on that and find out.

Mr. SCOTT. We will be very glad to.

Mr. HARRIS. There was a time when crude oil was about $3 or $4 a barrel, too.

Mr. SCOTT. I can find out those facts, and I will be glad to find them out and submit them.

But I do not think that that is so important to this situation here, because the effect of the overall economy, to the general public, has really shown itself probably more in the last 7 or 8 years, since 1929 and immediately before that. The gentleman would agree to that, would he not?

Mr. HARRIS. Do you know whether or not the cost of other facilities, of your bus industry, has increased more or less than has the cost of your oil products?

Mr. SCOTT. Well, I think if you refer to the cost of new bus equipment, it has increased more, or approximately the same as our gasoline increased.

Mr. HARRIS. What about operating costs?

Mr. SCOTT. Our operating costs have increased substantially and we have had, for example, labor since 1946 has increased in cost by approximately 25 percent.

Mr. HARRIS. But that has been the general trend of increases since controls were removed in 1946; has it not?

Mr. SCOTT. I think that is a fair statement, and I think everything has gone up, except our revenues. Our revenues have come down.

Mr. HARRIS. Except I believe there is another thing, too, and I believe there is one other that has not, and I may be wrong about it, but the electric-power industry has maintained quite a stable price during all of these years, too. Of course, there is the increased volume and demand that has been responsible for that.

Mr. HESELTON. The average price of gasoline with tax computed on 50 representative cities was 29.83. It is a fact that in 1920 the highest price of record was charged; it was 29.83. But as of March, the latest date here, there have been increases since. It was then 27.97, whereas over most of the period it was somewhere around 1920 or 1921 and it is well on its way back up.

Mr. HARRIS. I am somewhat surprised it has not already reached it, like everything else.

The CHAIRMAN. Are there any further questions? If not we are thankful to you for your appearance this morning and for the information you have given to the committee.

Mr. Sloan is the next witness.

STATEMENT OF ROBERT SLOAN, CHAIRMAN, SUBCOMMITTEE ON FUELS AND LUBRICANTS, PURCHASES AND STORES DIVISION, AMERICAN TRANSIT ASSOCIATION, NEW YORK, N. Y.

Mr. SLOAN. Mr. Chairman and members of the committee, my name is Robert Sloan. I am director of purchasing for the Third Avenue Transit Corp., in New York City. Our company operates 1,000 motorbuses in the metropolitan area. I am appearing on behalf of the American Transit Association.

The American Transit Association is a voluntary trade organization whose operating member companies transported nearly 80 percent of the 15 billion passengers using local transit facilities in the United States last year. These companies operate the local transit

facilities in the towns and cities of all sizes throughout the United States.

The transit industry renders a vital service to these communities by providing a basic means of transportation to and from work, shopping, schools, recreation centers, and in meeting other general family transportation requirements. In times of national emergency the importance of the transit industry to the national defense and to the maintenance of essential civilian economy is generally fully recognized by military and civilian officials in all branches of the Government.

The rates of fare charged by privately owned transit companies are strictly regulated by State commissions or by municipalities which also exercise control over the quantity and quality of the service provided.

Serious competition from automobiles and taxicabs which the transit industry suffers, its spiraling operating costs, and other unusual characteristics are responsible for the present unfavorable and declining financial position of most transit companies.

Since 1946 the transit industry has suffered a substantial and continuing decline in the number of users of its services, largely due to the competition resulting from the increase in automobile registrations and usage. The decline in transit traffic between 1946 and 1952 ranged from 38 percent in cities of less than 250,000 population to 32 percent in cities of over 1 million population. The decline for all cities during the same period averaged 35 percent.

Costs, both as to operating expenses and capital requirements, have increased steadily during this same period. At the same time the income resulting from increased fares, which often became effective only after prolonged procedural delays, has lagged dangerously behind spiraling operating costs. Direct labor costs represent almost 60 percent of operating revenues in the transit industry, and wage increases are often made effective retroactively, particularly in cases where arbitration is involved. Transit companies invariably suffer serious losses, which cannot be recovered, when retroactive wage increases are followed by prolonged delays in obtaining approval of fare increases.

The transit industry also carries a substantial burden in the form of general and special taxes payable at local, State, and Federal levels.

The combined effect of the downward trend in transit riding and the upward trend of costs is a sharp reduction in the rate of return on the money invested in the business, despite the fact that all transit companies have increased their fares one or more times since 1946. The industry earned only $29,749,000, or 0.76 percent, on its investment of $3,910 million in 1952. The maximum annual return in any 1 year in the past quarter century was 4.10 percent of 1943. It was possible for the industry to earn a return even as high as this only because 1943 was a war year in which wages and other costs were fairly well stabilized and the use of the private automobile restricted. Such inadequate earnings have virtually denied transit companies access to equity capital as well as long-term borrowed capital.

It is apparent from the foregoing statement of the precarious financial position of the transit industry generally that any increase in an element of operating expenses will react adversely. Not too great an increase will virtually wipe out the present small operating income.

During the year 1952 the transit industry used 380 million gallons of gasoline and 121 million gallons of diesel fuel in transporting people on urban motorbuses. If the recently announced increases in price of motor fuel—1.3 cents per gallon for gasoline and 0.6 cent per gallon for diesel fuel—had been in effect during that year, it is estimated the operating costs would have been increased by $5,700,000, an annual amount equal to almost 20 percent of the entire operating income of the industry in 1952.

Stating the effect in another way, if the combined gallonages of gasoline and diesel oil utilized by the transit industry for motorbus operations during 1952 were subjected to average increases of 1 cent and 2 cents, respectively, in the price per gallon, the corresponding increases in operating cost, resulting amounts available for return on investment, and rates of return would be:

Year	Increase in fuel cost	Available for return on investment	Rate of return
1952 (actual)		$29,749,000	0.76 of 1 percent.
1952 (assumed 1 cent per gallon increase)	$5,010,000	24,739,000	0.63 of 1 percent.
1952 (assumed 2 cents per gallon increase)	10,020,000	19,729,000	0.50 of 1 percent.

Continuing these calculations, a 3-cent increase would cut the rate of return in half and a 6-cents per gallon increase would be sufficient to completely eliminate the operating income, or amount available for return on investment.

Unfortunately, such increases in operating expenses cannot readily be passed along to the transit rider because of the prolonged delay characteristic of the regulatory process as applied to fare increases. Fare increases, while vitally essential in attempting to meet increased costs of operation, are themselves a factor in driving transit patronage to the private automobile in some instances. It is important, therefore, that unwarranted increases in the elements of transit operating cost be avoided if the industry is to continue to render its vital services to the urban community at fares within the reach of low-income groups.

That concludes my statement, Mr. Chairman.

The CHAIRMAN. Are there any questions, gentlemen? If not, we thank you, Mr. Sloan, for the statement that you have made for the benefit of the committee.

Mr. SLOAN. Thank you very much. Mr. Lloyd Halvorson is the next witness.

STATEMENT OF LLOYD C. HALVORSON, ECONOMIST, THE NATIONAL GRANGE

Mr. HALVORSON. Mr. Chairman and members of the committee, I would like to file my statement and then make a brief oral statement for the record.

The CHAIRMAN. You may file your statement and it will be printed in the record in full.

(Mr. Halvorson's prepared statement follows:)

TESTIMONY OF LLOYD C. HALVORSON, ECONOMIST THE NATIONAL GRANGE, ON INCREASES IN PRICES OF PETROLEUM PRODUCTS

Mr. Chairman and members of the committee, we of the National Grange are very pleased that these hearings have been called. Net farm income depends not only upon the price that farmers receive for their products, but also upon the expenses of farming. Farm leaders for years have stressed the importance of efficiency in the marketing of farm products, and they have secured substantial Federal and State appropriations for marketing research. However, relatively little has been done to determine the degree of efficiency and the degree of competition in the things farmers must buy.

Parity prices are a purchasing power concept. If prices of things farmers buy go up in price by 10 percent, then parity prices automatically go up 10 percent. This does not necessarily mean however, that market prices of farm commodities go up by 10 percent. What it may mean is that a product that was formerly at 91 percent of parity and not in need of Government purchase now is at only 82 percent of parity and in need of Government purchase to bring it back to 90 percent of parity.

There is a growing school of thought that the basic cause of the farm problem is found in the price, wage, and production behavior of industry. In 1929 the index of prices received by farmers was 148 (1910–14=100) and the index of prices paid was 160 (1910–14=100). This meant that farm prices in 1929 averaged about 90 percent of parity. By 1932 prices received were down to 65, but prices paid by farmers stood at 112. (It would not have been that low had it not been for the fact that included in things farmers buy are feed, livestock, seed, food, and clothing). With this relationship between prices paid and prices received, farm prices averaged only 58 percent of parity in 1932. It is clear that if prices on things farmers bought had dropped proportionately, farm prices could still have been at 90 percent of parity in 1932.

In deflationary situations such as the present, the flexibility of farm prices creates a terrific problem, especially if the prices on things farmers buy like gasoline and oil go up. Farmers get squeezed between falling prices and rising costs.

Farmers cannot help but wonder why gasoline and oil prices go up when the normal free-market conditions would indicate that a downward price movement could be expected. The cost-of-living index is lower now than it was last July, so wage increases should not be allowed by management or asked for by labor that result in higher prices for consumers. Similarly, petroleum corporations should not raise prices unless justified by cost if it is going to impinge heavily on other segments of our economy already in bad shape. Probably no segment of our economy uses as much gasoline, kerosene, and oil as farmers as they not only use it for the family car, but for their trucks, tractors, and stationary engines as well.

The last figure I have on profits in the petroleum refining industry is for the fourth quarter of 1952. It shows a return on stockholder equity of 14.5 percent after taxes. Out of 23 major industries, only 2 had a higher return, but during the first quarter of this year, petroleum refiners had the highest rate of return and in the second quarter stood second, while motor vehicles and parts were first.

Total assets of agriculture on January 1, 1952, stood at $169 billion. Total debt was $14.1 billion, leaving a proprietors equity of $154.8 billion; and if from this we deduct $20 billion for household assets we still have $134.8 billion as the equity investment of farm owners in the farming business. If farm owners had earned 14.5 percent before taxes as did the petroleum refining corporations just for the investment function, their net income in 1952 from investment alone should have been $19.5 billion. Instead, farm operators and their families, received only $14.3 billion for (1) labor, (2) management, and (3) investment all combined; and nonfarm landlords received $1.3 billion for their investment in farms (rent).

We have no figures on profits in the petroleum-producing business, but we have gained the impression it is very profitable. Some years ago it was alleged that the integrated oil companies were pushing most of their profits back to the oil wells in order to make the most of the depletion allowances. This practice was supposed to have made the refiners margin very small and thus made it very

difficult for small nonintegrated refinery companies. It is our understanding that oil companies can deduct 27½ percent of their gross income as a depletion allowance, and that this can go on long after the original investment has been recovered.

In spite of what I have said, I recognize that the increase in gasoline and oil prices may be justified. However, it is something we are very glad this committee is looking into, for in view of the serious impact upon agriculture, farmers will want to know if the increase was justified.

One of the greatest inadequacies in our country today is found in our road and highway system. Many State legislatures would like to increase the gasoline tax in order to acquire more funds for road and highway construction, but have relinquished the idea because gasoline prices of around 30 cents a gallon are already so high as to be very oppressive and discouraging to motorists. The inadequacies of our highway costs lives, limbs, and considerable time every day.

The increase in gasoline and oil prices is certain to have a direct effect upon the Federal budget because gasoline, oil, fuel oil, and other petroleum products are consumed in large quantities by the Air Force, Navy, and Army. In addition, the increased cost of gasoline, oil, fuel oil, etc., is certain to increase the cost of manuafacturing armaments. These are further reasons why we are glad to see this committee investigate this matter.

Farm consumption of petroleum products has been estimated for 1951 by Government agencies as follows:

	Million gallons
Tractors	4,020
Automobiles	1,935
Trucks	1,180
Stationary engines	375
Household and miscellaneous	2,490
Total	10,000

A 1-cent-per-gallon increase means an additional cost of $100 million for farm people.

Mr. HALVORSON. We are very pleased that this committee is holding hearings on this very important subject. There is probably no group in the country that is a heavier user of gasoline than farmers. Now, the questions that you raised in your statement this morning seem to me to be the best and most comprehensive array of questions I can imagine, and I hope that all of those questions are asked of representatives of the oil companies so that we farmers will really get the answers to whether or not this increase is justified and as to whether or not there is enough competition in industry to protect the public.

If some of those questions aren't answered satisfactorily, I hope this committee will take proper steps to see to it that there will be enough competition in industry, and that there will not be unjustified increases.

I am not saying that the increases have not been justified. I would like to point out that farmers use about 10 billion gallons of petroleum products. A 1-cent increase means $100 million, so that there has been a 2-cent increase recently, it means $200 million increased expenes of farm people.

Now, on the last page of my statement, I have that 10 billion gallons broken down, and I won't go into that here.

I haven't been able to determine for myself whether or not the increase has been justified, but looking at a few factors it seems to me that probably it has not been . I do not know whether wages have gone up in the petroleum industry or not, but I cannot quite see why they should go up because the cost-of-living index is about the same, and in fact a little lower now than it was a year ago. I have looked at the profits of petroleum industry and find that they stand near the top in the rate of return on the stockholders' equity. For the fourth

quarter of 1952, the return on the stockholders' equity was 14.5 percent after taxes.

Now they have been quite consistent in maintaining a very high rate of return, and looking at that factor, at least, it is hard to see why an industry that is in such good shape should turn around and pass on an increased petroleum price and damaging farmers as it does. Already the income of farmers is very low, and it has been falling and it is lower now than it was in 1948.

The cost of things that farmers buy has been rigidly high, and farm prices have been falling for the last 2 years. I notice that the index of prices received by farmers reached a high of 313 in February 1951. That is a little over 2 years ago, and it is now down to 261. That is a substantial decline. Consequently, the parity ratio today on May 15, 1953, was only 94. If these things that farmers buy continue to go up, and prices that farmers receive continue to go down, there will be a very serious situation in agriculture, and therefore I think that the situation in agriculture alone justifies the inquiry that this committee is making into the increase in gasoline prices. I believe that concludes my statement, Mr. Chairman.

The CHAIRMAN. I might say, with reference to the statement that you have made, expecting the questions that were propounded in my opening statement this morning, that those questions were purposely made at the commencement of these hearings in an endeavor to point the way as to the information that this committee would want. I assume that in most instances they are directed at the companies themselves that have made these increases, and I certainly am hopeful that those companies will give consideration to those questions and when they appear before this committee come prepared to give such information as they may have that would in their opinion have a relationship to the questions that I have asked.

Mr. HALVORSON. I think the questions are excellent and I know that we will read the record carefully, and I hope that the committee members will persistently pursue those questions that you have raised because they are so thorough and comprehensive that they will when answered either point to the solution or they will satisfy our farm people that the increases were justified. Otherwise, they will be very unhappy.

The CHAIRMAN. Are there any questions, gentlemen?

Mr. BEAMER. I would like to have an answer to a brief question. Do you have any information about the necessary increase of the use of petroleum products by farmers because of the tractors and other developments that have been made?

Mr. HALVORSON. It has been increasing consistently. I have before me some figures that show the increase in the expenditures that farmers have made for cost of operating motor equipment. Now, in 1940, it was $584 million, and in 1952 it was $2,120,000,000. That is pretty near a fourfold increase.

Mr. BEAMER. Could you probably say that the greatest increase in the petroleum consumption has been in the agricultural areas?

Mr. HALVORSON. I would think so, because farmers have gotten rid of most of their horses, and not only that but they have increased the intensity of their operations, and are using more horsepower today than they ever did before.

Mr. BEAMER. You also referred to the rate of return of the oil companies. I wonder how that would contrast with the rate of return for the farmers.

Mr. HALVORSON. Well, that is something very interesting. I happen to have that in my statement to a slight extent. If farmers were to get 14½ percent on their equity they would not have to work and they would be better off than they are today, because they have an investment of $134.8 billion, and after deduction of their liabilities and after deduction of some of their household investments, and after deduction of their invesements in bank assets, and so on. Now, so therefore if farmers were to get 14.5 percent on that $134.8 billion, their net income from investment alone should have been $19.5 billion, but instead their net income was only $14.3 billion, and that included their return for labor of not only the farm operator but the family as well, the management and then the investment.

So you can see what a much worse position farmers are in than the oil companies. I should also point out that this $14.3 billion of net farm income includes a rental allowance to the cash income has been added a figure for the value of living in the dwellings, and they have also added about $2 billion or $3 billion for products consumed on the farm.

Mr. BEAMER. It is an honest figure, is it?

Mr. HALVORSON. It is calculated by the Department of Agriculture, and they have added in these things like rental value, and product consumed on the farm.

Mr. BEAMER. I think it is very significant.

That is all, Mr. Chairman.

Mr. SPRINGER. I have one statement I want to make. Coming from an agriculture area almost entirely, I might say for the record that the farmer in the Middle West has been concerned with this problem of rising prices to him and falling prices going out from him. This has been almost successive since 1947, has it not?

Mr. HALVORSON. Yes; that is right, that was the peak year of farm income; that is right.

Mr. SPRINGER. Now, I think a farmer probably realized there was going to be a readjustment of prices in 1953, and he doesn't have so much objection to the readjustment in price provided that he gets a readjustment in prices for the things which he purchases.

Mr. HALVORSON. That is exactly the situation.

Mr. SPRINGER. That is the problem which you have outlined in this statement.

Mr. HALVORSON. I point out that parity is tied to the cost of things that farmers buy, and now farmers' prices would seldom get below parity if the cost of things that farmers bought would also fall. And it really gets back to the situation that if industry would continue to produce to the fullest capacity at all times without any restrictions and without any concern for price, prices would move together more in harmony and there would be less farm problem.

Mr. SPRINGER. Now you mentioned here in your statement one point: Eighty-two plus parity. Would you explain that with relation to the products that you purchase? That is the next to the last line, page 1, second paragraph.

Mr. HALVORSON. I wanted to point out there that when prices of things that farmers buy goes up, like gasoline and oil, which is a very

big factor, unless farm prices go up along with the parity ratio tends to fall which means that more products are going to be in need of price supports. In other words, the parity price concept is a purchasing power concept, and it really means that if the price of things that farmers buy go up 10 percent, the parity prices also go up 10 percent and it does not mean that market prices move up with parity prices, and it might mean that some prices instead of being 90 percent of parity, end up with a figure of 82 percent of parity, which in not many cases will call upon the Government to support the price. So this has a direct implication to the problem that the Secretary of Agriculture has at present in meeting the farm situation.

If other things go up, as they will, and as they have, it will compound the farm problem.

Mr. SPRINGER. I believe that is all, Mr. Chairman.

The CHAIRMAN. Any further questions? If not, we thank you, Mr. Halvorson, for your appearance today.

Mr. HALVORSON. Thank you, gentlemen.

The CHAIRMAN. The next witness will be Paul Hadlick, of the National Oil Marketers Association.

STATEMENT OF PAUL E. HADLICK, GENERAL COUNSEL OF THE NATIONAL OIL MARKETERS ASSOCIATION, WASHINGTON, D. C.

Mr. HADLICK. Mr. Chairman and gentlemen of the committee, I was happy to accept your invitation to appear before you and present what information I can with reference to rising oil prices and the reasons therefor.

First of all, let me say that prior to any knowledge that this committee was going to hold hearings I, on behalf of the National Oil Marketers Association, filed a complaint with the Antitrust Division of the Department of Justice asking that an investigation be made to determine if there was any collusion among the integrated oil companies in the raising of petroleum prices.

My complaint to the Department of Justice was made orally on June 22, 1953, and supplemented by a brief letter on the same date to Mr. Stanley N. Barnes, Chief of the Antitrust Division, in which I stated:

> Today I conferred with Mr. Edward P. Hodges who was Acting Chief of the Antitrust Division in your absence with reference to the problem of antitrust law enforcement in the oil industry. This communication confirms the presentation of the complaint and restates the main portion thereof.
>
> Raises in the price of gasoline a week ago followed later last week by advances in crude oil prices and again today by additional increases in all grades of refined petroleum products indicates clearly that there is collusion among the large oil companies controlling the oil markets. Stocks of petroleum products are about the highest in history and can be amply added to by simply lifting of oil State's rationing schedules.
>
> It is respectfully requested that your Department promptly institute an investigation of the current price advance in petroleum to determine if the antitrust laws have been violated, and, if our suspicions are justified by the facts, that they be placed before a Federal grand jury.

I would not want my appearance here, nor anything I say here, to be construed as withdrawing or in any way weakening the complaint thus made to the Department of Justice. There is sufficient ground from the circumstances surrounding the recent price increases in petroleum to warrant the Department of Justice in using the extraordinary powers of the grand jury to search out the facts.

The CHAIRMAN. May I at this point, Mr. Hadlick, say, and make it plain to the committee, that you did not solicit the committee for your appearance here today, but the committee did solicit you to be present today to give it the benefit of such study or information that you might have, so that you are here in the sense of responding to a request from the committee rather than projecting yourself into the hearing.

Mr. HADLICK. That is correct, and I thank you very much, sir.

I should like to suggest that if, during your hearings, you develop any facts indicating collusion in the raising of petroleum prices, you follow the usual custom of congressional committees of referring such evidence to the Department of Justice.

Furthermore, I want to make it plain that I am not appearing here to seek any pressure from your committee upon the Department of Justice. The matters I want to stress upon here are related to the overall situation in the oil industry and the legislation enacted by the Congress which has laid a foundation for monopoly in oil.

To refer to the recent price increases briefly. In a free competitive market, prices respond upward and downward according to supply and demand. I will speak later of the efforts—successful at times—in holding the supply of oil below demand in order to enhance prices. But as of the present time, no one can show that there is a lack of supply—domestic or worldwide. Crude-oil stocks, fuel-oil stocks, and gasoline stocks are high—just prior to the rise, the market was described as "sloppy," meaning smart buyers could buy under the postings. Only logical conclusion is that the recent increases took place as the result of collusion.

As evidence of how markets act when there is no collusion, let me cite you the case of Socony-Vacuum Oil Co. Late in April or early in March of this year, this company initiated a rise of one-half cent per gallon on gasoline in New York and New England. At that time stocks of gasoline in the United States were some 5 million barrels higher than the year previous. Socony-Vacuum Oil Co. had to back down as none of the other companies followed.

But when it came to the June hikes, it seems that arrangements had been carefully made so that all would follow—and they did. Stocks of gasoline at this time were some 27 million barrels above a year ago.

I would like to say, Mr. Chairman, that the questioning I heard this morning has seemed to start with the end of the war. I think that your questions have to go back to the thirties, and I respectfully submit that your committee review the whole oil industry from 1934, 1935, or 1936 on.

You, Mr. Chairman, and Mr. Crosser, are the only two members of this committee now present or now on the committee who were here at that time. You are very familiar with the situation. But I am sure that some of the other members are not.

The CHAIRMAN. There is no restriction upon you as to the period of years as to which you shall confine your testimony, and you may go back beyond what was indicated in the questions of the chairman this morning if the purpose if to illustrate a point that you think is important.

Mr. HADLICK. Quite likely the producers and refiners of oil will tell you that their costs have risen. That may be and perhaps is true But the oil marketers' costs have risen plenty in the last dozen years, yet their margins have been practically the same. Integrated oil companies who profit from their operations in the production, refining, and transportation of oil have control over the fixing of the wholesale and retail prices to such an extent that they dictate what a wholesaler's and retailer's purchasing price shall be, as well as his selling price.

But regardless of increases costs, competitive markets are not set by costs as much as by supply and demand. Furthermore, profits of the crude oil producers and the integrated oil companies have been handsome even since 1940. Below I give you 2 comparisons of the profits of 12 integrated oil companies, the first set comparing 1940 profits with 1948, and the second comparing 1940 profits with 1951. Profits of these companies for 1952 and the first 6 months of 1953 have been on a par, if not higher, than those shown for 1948 or 1951.

I purposely chose 1940 because at that time the war in Europe had started, and prices had gone up. I think crude oil was about $1 to $1.10 in 1939 and 1940. Today it is bumping at $3.

I would like to at least read one of these tables:

Profits of integrated oil companies, net after income taxes

	1940	1948	Percentage of profit increase
Atlantic Refining	$8,559,356	$35,657,124	316
Continental Oil	4,317,658	54,216,729	1,155
Gulf Oil	22,150,277	153,539,299	593
Mid-Continent Petroleum	2,967,394	24,681,993	731
Pure Oil	8,718,057	41,672,136	377
Shell Union Oil	15,654,678	111,396,447	611
Sinclair Oil	3,792,602	81,048,602	2,037
Socony-Vacuum Oil	36,409,055	132,800,055	264
Standard Oil (Indiana)	33,597,342	140,079,286	316
Standard Oil (New Jersey)	123,886,316	365,604,976	195
Sun Oil	7,969,068	42,853,839	437
Texas Co	31,547,662	165,980,980	426

Mr. SPRINGER. What are these figures again?

Mr. HADLICK. These are the profits of integrated oil companies, net after taxes, taken from their annual reports.

Now, the comparison with 1951 is the same, and I would like to put those two tables in the record for your comparison. They vary very little, and as I say, for the last year and this year they are the same.

(The tables referred to follow:)

Profits of integrated oil companies, net after income taxes

	1940	1948		1951	
		Amount	Percentage of profit increase	Amount	Percentage of profit increase
Atlantic Refining	$8,559,356	$35,657,124	316	$45,067,000	426
Continental Oil	4,317,658	54,216,729	1,155	41,292,692	856
Gulf Oil	22,150,277	153,539,299	593	140,071,000	532
Mid-Continent Petroleum	2,967,394	24,681,993	731	17,062,182	474
Pure Oil	8,718,057	41,672,136	377	33,593,727	285
Shell Union Oil	15,654,678	111,396,447	611	97,020,000	519
Sinclair	3,792,602	81,048,602	2,037	81,898,490	2,059
Socony-Vacuum Oil	36,409,055	132,800,055	264	161,622,159	543
Standard Oil (Indiana)	33,597,342	140,079,286	316	148,697,356	342
Standard Oil (New Jersey)	123,886,316	365,604,976	195	528,461,000	326
Sun Oil	7,969,068	42,853,839	437	45,353,643	469
Texas Co	31,547,662	165,980,980	426	178,774,677	466

Mr. HADLICK. You might ask: How could such enormous increase in profits come about? All you have to do is look at the record of crude oil prices. In 1939, 40 gravity crude oil in Oklahoma sold for a dollar a barrel. In 1940, this was increased to $1.10. At the end of 1945, it had risen to $1.25 per barrel. However, by the end of 1948, it had risen to $2.65 per barrel, and with the latest rise last month it is now $2.90 per barrel.

Despite these enormous profits, Dr. Robert E. Wilson, chairman of the board of Standard Oil Co. (Indiana) made a statement to company stockholders a year ago May 27 that:

Business is caught in a squeeze at the hands of Government between prices being held down, while promoting higher wages and high taxes.

I am sure Dr. Wilson must have been talking about some other industry or business than his own. Dr. Wilson's company—presumably the one he refers to as being squeezed—made $33,597,342 in 1940 and $148,697,356 in 1951. If that is being squeezed, then there are many in my association that would like to be thusly driven to the wall.

The chairman of the board of Socony-Vacuum Oil Co., in his report to stockholders a year ago, stated that earnings are actually inadequate to meet the demand which can be reasonably made by the owners of the business and the public. Socony-Vacuum made, after taxes, $36,409,055 in 1940 and $161,622,159 in 1951. In that period their sales tripled but their profits quadrupled.

A year ago the president of Gulf Oil, in a speech, stated:

If an industry such as ours is to expand its facilities and keep pace with the Nation's requirements and at the same time preserve reasonable financial safety, it must be done primarily from the reinvestment of earnings.

Yet Gulf increased its profits over five-hundred-fold from 1940 to 1951—from $22,150,277 in 1940 to $140,071,000 in 1951.

I sincerely doubt the soundness of Government regulatory measures upon supply which force the consumer to become the financiers of the sellers' expansion programs.

The whole question of the taxpaying ability, and present liability, of the integrated oil companies should be gone into. They have the benefit of the 27½ percent depletion allowance, the right to write off

drilling and development costs as operating expense, and for good measure the Petroleum Administration for Defense has been most generous in the issuance of rapid amortization certificates for literally hundreds of major oil company installations. If any of the 20 large major oil companies ever paid an excess-profits tax, despite their high earnings, I have seen no record of same.

As I have said before, you will perhaps hear a lot in the course of your hearings about costs. It is a good subject and it is my hope that the committee will pinpoint the costs, if that is possible. I merely wish to call the committee's attention to the Tariff Commission's summary report, showing a production cost of 78½ cents per barrel in 1939 and 76.4 cents per barrel in the third quarter of 1941. Certainly costs have risen, but have they tripled as has the selling price of crude oil? The exorbitant profits of the oil producers deny it.

In addition to the question of costs of producing crude oil, the committee should look into just why we had two refined products rises on the east coast interspersed with only one crude oil rise. Tanker rates have always been blamed for many increases in the past, but these rates are perhaps at their lowest point since the war. The bearing of tanker rates on east coast prices should be looked into, as well as who controls the coastwise tanker shipping of this country.

I think we should be clear in the use of terms. There is a distinct difference between a law which prescribes a course of conduct upon all citizens and a law which sets up an agency to control the conduct of certain persons or firms. Law functions from the outside and fixes in advance the rules of conduct impartially applicable to all. On the other hand, control penetrates into the interior and becomes a part of managerial authority. Some call this national planning or social control. As one author puts it:

> It consists essentially in the creation of plans by a central group for the balancing of production and distribution with consumption demand and the enforcement of these plans by the powers of government either as inducement or compulsion. It is just as collective in character as is public enterprise, and will lead inevitably to the suppression of the individual and his subordination to the group, with all the resulting suppression of personal liberty in all other fields of human interest.

To put it another way, there are only two fundamentally different concepts of social organization: the individualistic, or capitalism, and the collective, or socialism or communism. Quite obviously they are mutually antagonistic. The difference is largely centered in who is to own or control the facilities of production, distribution, transportation, communication, and commerce. Up until this last generation we have been of the individualistic (capitalisitic) type. A few of us, at least the association I represent and myself and, I hope, some of you, still want to keep this country that way.

There we have the nub of the situation, Do we have control in the oil industry? Mr. Holton, chairman of the board of Socony-Vacuum Oil Co. told his stockholders a year ago that the "rapidly growing Government control will eventually result in the loss of personal liberty."

A year ago, a regional manager for Cities Service Oil Co., in addressing an oilmen's meeting in Virginia, warned against tinkerers who would change a great edifice, built with individual initiative upon a foundation laid in Virginia nearly 350 years ago.

I could quote many other major oil company men who warn against Government control of the oil or any other industry. They seem to overlook the fact that we do have control, but it happens to be the kind of control that lines their pockets with gold by picking the pockets of the jobbers, dealers, and consumers.

I want to state that the association I have the honor and privilege of representing, and myself, object strenuously to Government control under the definition I have given. But we believe that Government control has already started. A pinhole leak in the dike doesn't remain a pinhole unless someone makes a repair. It is time to do some repairing to our economic system in this country—and I suggest a start in oil by eliminating at least all the Federal controls that have been instituted in the past 20 years.

Do we have control in oil such as balances production or penetrates into management? The Chase National Bank is a reputable institution of long standing; if not one of America's largest, at least one of oil's best friends. The Chase economist, Joe Pogue, in his booklet, Economics of the Petroleum Industry, says:

> The institution of proration has thus modified the mechanism whereby supply and demand are equated. Formerly subject to regulation by price alone, supply is now restricted at the wellhead by proration which therefore acts as a substitute for price at this point in the system.
>
> * * * * * * *
>
> The existing relationship of the petroleum industry to the State is one of some measure of mutual cooperation and helpfulness. The State has undertaken to assist the industry in its efforts to bring about conservation with its attendant stabilization, and the instrumentality of proration has received the support of most of the oil-producing States through the enactment and enforcement of conservation laws; the interstate oil compact has developed as a coordination agency; and the Federal Government has contributed its support of such measures by the enactment of the Connally "Hot Oil" Act, the provision of advisory production quotas, and a general attitude favorable to a temperate program of imports.

Before leaving Mr. Pogue—who, incidentally, was one of the first members of the economics committee of the Interstate Oil Compact Commission—I should like to invite the attention of this committee to Mr. Pogue's views on oil marketing—quite a contrast to his orderly production theories. Mr. Pogue isn't a Socialist all of the way—only in the production of oil. In the same publication, Economics of the Petroleum Industry, here is what he says about marketing:

> There are too many units engaged in marketing to thrive except under relatively large margins. * * *
>
> The distributing system of the petroleum industry is the focus of incessant dissension and the source of endless proposals for regulation and change. The overcrowded nature of this field makes for a severity of competition that keeps the profit average at a level unsatisfactory to the efficient and unremunerative to all operators in the higher cost brackets. There can be no fundamental resolvement of this difficulty except through a long period of narrow margins that will retard further expansion and permit the volume of sales per unit to increase; and yet there is no field in which more legislative panaceas are proposed, all running to the theme of protection to this interest or that, or to the regulation of competitors.

Now, if regulation is good for production, it is good for marketing. But I still say I object to regulation of any kind which steps into the management of a private enterprise.

While I have heretofore stated that the current stock position of the oil industry, domestic and worldwide, did not justify the increase

in prices last month, that by no means discounts the fact that the machinery exists whereby stocks could have been drawn upon—yes, can still be drawn on—to place supply below demand and thus force prices further upward. By a little more manipulation in Texas schedules, you could have $5 oil and there wouldn't be a thing you could do about it unless you did something with legislation. That is exactly what was done in the period from January 1, 1946, to the spring of 1947, when the price of crude oil rose from $1.25 per barrel to $2.65 per barrel.

While part of the blame for the control of oil production lies with the States, their oil control legislation and the orders of their commissions, such ordinary controls would be largely ineffective in controlling national production and fitting into the world oil cartel situation if it were deprived of the assistance of the Federal Government.

As Senator Wherry's Senate Small Business Committee, in Senate Report No. 25 (81st Cong., 1st sess.), published early in 1949, stated:

> There is a mechanism controlling the production of crude oil to market demand (or below) that operates as smoothly and effectively as the finest watch.

If you will study the world oil situation, you will find that the international oil cartel, now subject to action under the Federal antitrust laws in the New York courts, could never have become effective until proration and the subsequent Federal legislation protecting the control over supply and demand had become operative.

I should like to present to you a resolution adopted by the National Oil Marketers Association at its last convention, for the record, if I may, Mr. Chairman.

The CHAIRMAN. It will be made a part of the record at this point.

(The resolution referred to follows:)

RESOLUTION NO. 1—OIL PRODUCTION CONTROLS

Whereas the National Oil Marketers Association opposes control of legitimate business by Government, believes in the free-enterprise system under which our country has been built, and favors the return of Government to the principles of the Founding Fathers by enacting only such laws as set the rules of conduct for all and repeal of such laws as place Government in the position of "owning," "controlling," or attempting to "plan" or "manage" business; and

Whereas existing laws, decrees, orders, and activities of the Federal and State Governments in planning, controlling, and limiting the production of petroleum have resulted in the monopoly of such industry by a small group of integrated oil companies; have failed to protect the consumer from inordinately high prices; have eliminated a free and competitive market in the purchase and sale of petroleum products; have seriously injured thousands of nonintegrated units in the petroleum industry, and thus threatens even further Government control of the oil industry: Now, therefore, be it

Resolved by the National Oil Marketers Association in meeting assembled at Chicago, Ill., this 12th day of November 1952, That:

1. State oil proration laws whereby the production of crude oil is controlled and regulated so as to limit its production to or below market demand, be repealed and that true conservation statutes be enacted.

2. The Connally Act, whereby crude oil produced in excess of State production orders is prohibited entrance into interstate commerce, be repealed by the Congress of the United States.

3. The congressional approval of the interstate oil compact whereby the oil-producing States, with the assistance of the large oil companies, endeavor to limit the total production of oil-producing States (and perhaps foreign countries) to or below market demand, be repealed.

4. That appropriations for the issuance of monthly forecasts of market demand for petroleum products, issued by the Bureau of Mines of the Department of the Interior, be withheld by the Congress.

Mr. HADLICK. Obviously nothing can be done by this committee or the Congress with reference to the State proration laws. But this committee and the Congress can do something to prevent the public from being mulcted and the independents in the refining and distributing fields from being driven out of business or forced to sell out.

The committee will recall that the Connally Act, originally a section of the old National Industrial Recovery Act, was enacted as a piece of temporary legislation. For several times it was renewed for 2-year periods. Finally it was made permanent. Once it became permanent, and price ceilings established during World War II were removed, full advantage was taken of it and the other control features.

The Bureau of Mines continues to make its forecasts of demand which are followed fairly closely by the oil-producing States. Any loopholes in the setup that might occur are plugged by the actions of the Interstate Oil Compact Commission—a compact authorized by the Congress to which I have heard even some foreign oil-producing countries have become members or participants.

The Connally Act is an interstate trade barrier with alleged protection of commerce and conservation as its excuses. It is harmful to free enterprise, monopolistic in its effect, and prejudicial to the public welfare. Just how the late President Roosevelt could reconcile his approval of the Connally Act and yet reject the proposal to punish persons transporting stolen animals in interstate commerce—the latter described as the "unjustifiable extension of the Federal police power to embrace a particular class of offenses of a petty-larceny type"—is beyond my comprehension.

The CHAIRMAN. Mr. Crosser was inquiring how much longer your statement is, not that we want to shorten it, but merely to make his plans.

Mr. HADLICK. Are you going to meet this afternoon, Mr. Chairman?

The CHAIRMAN. I would like to. You go ahead for the time being.

Mr. CROSSER. I will say that I am very much interested in your statement, and it is a remarkably good statement, but I have got to leave temporarily now.

The CHAIRMAN. I have sent over to ascertain the time that remains on general debate, and that is what is enabling us to sit while the House is in session. We will be able to determine that in a few minutes.

I do not want to cut you short. There are some things I have been waiting to hear you make some comment upon, and if you have in your mind to do it, I do not know of anyone on our list today who is more qualified to make the statements that have a bearing on this whole subject than yourself.

Mr. HADLICK. You just watch my friends in the back to see that they don't throw any knives at me, I will go ahead.

The CHAIRMAN. I have not seen any of them as yet indicate any intention of doing other than just listening to you.

Mr. HADLICK. I would like to refer to section 4 of the Connally Act (15 U. S. C. A. sec. 75), which reads:

> Whenever the President finds that the amount of petroleum and petroleum products moving in interstate commerce is so limited as to be the cause, in whole or in part, of a lack of parity between supply (including imports and reasonable withdrawals from storage) and consumptive demand (including exports and reasonable additions to storage) resulting in an undue burden on

or restriction of interstate commerce in petroleum and petroleum products, he shall by proclamation declare such finding, and thereupon the provisions of 715b shall be inoperative until such time as the President shall find and by proclamation declare that the conditions which gave rise to the suspension of the operation of the provisions of such section no longer exist.

Congressman Sam Pettengill, who ably served on the old Cole committee with you, Mr. Wolverton, explained the powers thus given the President as follows:

He has the power to suspend the operations of the Connally bill if he finds that the oil-producing States which do prorate production are limiting production below national demand and thus unjustly enhancing the price.

And former Congressman Dies, author of the House version of the Connally Act, said in 1937:

If we were to reduce the supply below the market demand, then immediately the President has the right in connection with the protection of the nonproducing States to suspend the act.

And as late as March 1946, when crude oil was still $1.25 a barrel, Ernest O. Thompson, of the Texas Railroad Commission, wired Congressman Wright Patman, saying that OPA price controls were no longer necessary in the oil and petroleum products line, because "there are huge surpluses of crude in storage and top-heavy surpluses of gasoline," adding:

There need be no fear of State regulatory authorities reducing production allowables below consumptive demand. Congress took proper care of that when the law approving the interstate-oil compact was passed by providing that the President might permit an increase in imports of crude oil any time the State regulatory authorities refused to supply the needs.

Yet, immediately after Mr. Thompson's remarks, the price of crude oil jumped up. Appeals to the President during the period when supplies were artificially held below demand in 1947 and 1948 brought no action. Crude oil rose in price from $1.25 per barrel to $2.65 per barrel.

It seems quite clear to me that the time has come for the Congress to repeal the Connally Act, withdraw its approval of the interstate oil compact, and take some action that will restrict and prohibit the Bureau of Mines from laying out a pattern for the control of the production of crude oil.

At this point I should like to submit for the record and make reference to some statements made by Patrick J. Hurley, as attorney for Consolidated Oil Corp., now Sinclair, before the Railroad Commission of Texas on August 1, 1940. If I may, I shall read that:

In June 1940 the posted price of Humble was $1.33 per barrel for Corpus Christi crude. On June 10, 1940, Consolidated was offered La Rosa crude at $1.16 per barrel aboard ship at Corpus Christi. Similar offers between $1.16 and $1.25 were received. Offers indicated several million barrels of Texas oil for sale at the low posted prices. North Texas crude offered for 75 cents per barrel by Panhandle Refining Co. Oklahoma crude reduced by Rock Island Refining Co. to 60 cents a barrel. As a result of these cut prices, Consolidated posted a reduction in north Texas prices.

On July 18, 1940, Harry Sinclair received a telegram from D. H. Bolin, North Texas Oil & Gas Association, at Wichita Falls: "Please advise what oil producers of this area can do to restore your price of crude oil. Since your price cut applies primarily to this area evidently the trouble can be removed. We face a very serious situation and are ready to take serious measures to remedy it." On July 19 Sinclair replied to Bolin that he was following price cuts of others and it was difficult to correct the situation, that shutdowns of production and retaliatory and illegal reduction of allowables cannot help the problem, that the inter-

state compact commission and Railroad Commission of Texas holding meetings to determine whether to cut allowables and cut back production until prices increased.

As a result of Sinclair's price cut the Railroad Commission on July 19, 1940, cut the allowable for Walnut Bend crude, of which Sinclair is principal producer and principal purchaser, from 60 to 35 barrels per well, a cutback of 1,600 barrels per day, from 3,840 barrels to 2,240 barrels. On July 22, 1940, Jerry Sadler sent a wire to Sinclair calling a meetig for August 1, 1940, "for the purpose of hearing evidence on the question of prevention of waste in various oil fields in the State of Texas." On July 23, 1940, Sinclair received a wire from Chairman Smith of the Railroad Commission stating: "Commission considering a shutdown of entire area of north Texas where Sinclair has cut on the theory that a bottom hole pressure survey of the area was badly needed."

These reprisals against Sinclair—

and remember, I am quoting Mr. Hurley, and not my words——

The CHAIRMAN. This is a quotation from General Hurley, who represented the Sinclair Co.?

Mr. HADLICK. That is right.

These reprisals against Sinclair were instituted to compel restoration of prices. No question of waste involved. Commission has no authority to fix prices. Activities are pure reprisals against Sinclair for meeting competition. Commission attempts to achieve by indirection what the law of the Nation forbids it to do directly. Activities of Railroad Commission are illegal. Activites of commission caused imports of foreign oil to jump from 160,000 barrels a day in June to 305,700 barrels in July. Unprorated foreign crude can reach the consumer at a lower cost than the prorated price-fixed crude of Texas.

A long program of proration of wells to the point of making production impracticable in Texas brought about shutdowns for 84 days in the first 7 months of 1940 in east Texas and a statewide shutdown of 24 days in the same period. The State of Texas did not gain by these sacrifices. The commission merely rendered a financial service to the producers. The sale of oil below a fixed price is not waste.

Sinclair favors proper regulation, prevention of waste and conservation but does not favor conservation as a springboard for price fixing.

The rest of it I would ask to be extended in the record.

The CHAIRMAN. Was it at that time or later that the Sinclair Co. had some arrangement with Mexico?

Mr. HADLICK. Maybe I had better proceed. That is in the next paragraph, Mr. Chairman:

The real cause of the retaliation against Sinclair was the "excessive imports of Mexican oil by Sinclair." Sinclair executed a new agreement with Mexico and certain companies distributed propaganda against Sinclair for doing so. Sinclair's competitors originally organized a propaganda bureau in New York City to give a "proper slant" to the news concerning the Mexican oil expropriation controversy. When Sinclair settled with Mexico the propaganda bureau began discrediting the Sinclair settlement and magnified the amount of oil it brought to the United States. The propaganda included charges that excessive importations from Mexico by Sinclair brought about unsettled prices of crude in the United States. The propaganda bureau charges that Sinclair cooperated with Standard of New Jersey, Dutch Shell and other expropriated companies to create a "united front" and that Sinclair later broke this united front for its own gain.

The CHAIRMAN. When you say that, they are General Hurley's words?

Mr. HADLICK. I am quoting Gen. Patrick J. Hurley.

I will read the balance of the statement for the record.

The CHAIRMAN. It is very interesting.

Mr. HADLICK (reading):

The President of Mexico invited representatives of the expropriated companies to join together for the purpose of negotiating a settlement. Officials of the United States Government and the companies were well advised. A chief

negotiator was chosen by the companies. The negotiator was a lawyer of recognized ability and integrity and an ex-Government official of wide experience. A date was set for the opening of negotiations. It was agreed that the negotiator and a representative of Sinclair would proceed to Mexico together. When the day of departure arrived, however, the president of one of the chief expropriated companies asked the Sinclair representative not to accompany the chief negotiator and not to participate in the opening conferences. The chief negotiator proceeded to Mexico alone. Upon his arrival in Mexico the propaganda bureau turned loose on the public a flood of memoranda, newspaper interviews, public adresses, and brochures indicating the settlement of the entire controversy to the complete satisfaction of everyone.

The CHAIRMAN. Was the representative of the United States at that time Judge Cook of Philadelphia?

Mr. HADLICK. I believe it was Judge Cook; yes.

Finally the negotiator withdrew on the ground that he had been deceived and doublecrossed by the Mexican officials. All negotiations were discontinued. Sinclair representatives sat by endeavoring to help but gave no interviews and refused to sever relations with Mexico. Sinclair was forced to resume negotiations alone still advising the other expropriated companies of what was transpiring from day to day. He learned that the chief negotiator had attempted to persuade the Mexican officials that Sinclair's investment was meager, that Sinclair would have to go along with Jersey and Dutch Shell and Standard of California irrespective of the kind of settlement made. Sinclair was forced to withdraw from the united front.

Jersey, Shell, and the other expropriated companies released propaganda to the effect that Sinclair's agreement with Mexico was illegal, although the United States State Department officially approved the agreement. Mexico paid promptly under the agreement. Mexico has met all of its commitments.

The expropriated oil companies then proceeded to introduce into the United States Congress an amendment to the National Stolen Property Law introduced by Senator Morris Sheppard of Texas. The bill was designed to declare illegal the payments by Mexico to Sinclair on the ground that Mexico was withdrawing oil from the properties of the other companies to pay Sinclair. Congressman Lindley Beckworth, of Texas, stated that the bill was definitely intended to interfere with the carrying out of the Sinclair settlement. Imports into the United States during the first 7 months reached 305,700 barrels a day. Sinclair agreed to import into the United States only 13,600 barrels per day for the 4 years over which it contracted to buy 5 million barrels of Mexican oil per year. Sinclair's imports amounted to approximately 1 barrel out of every 22 barrels imported. This 1 barrel could hardly destroy the market. Only 3 percent of all importations come from Mexico.

Sinclair refines 200,000 barrels of oil in the United States every day. Less than 7 percent comes from any foreign source.

Now, I want to refer to the interstate oil compact.

The CHAIRMAN. I am wondering if it might not be a good point for us to adjourn for 1 hour, and resume again as close to 2 o'clock as it would be possible for us to do.

(Whereupon, at 1:10 p. m., a recess was taken until 2 p. m., of the same day.)

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order.

I regret that the situation is such with the important bill on the floor of the House today, it is making it very difficult for us to keep our attendance here to what it would ordinarily be. But we will do the best we can in the face of the difficulties that we are encountering.

Mr. Hadlick, you may proceed.

STATEMENT OF PAUL E. HADLICK, GENERAL COUNSEL, NATIONAL OIL MARKETERS ASSOCIATION, INC., WASHINGTON, D. C.—Resumed

Mr. HADLICK. Thank you, Mr. Chairman.

I want to go into the interstate oil compact, and in that regard I want to say that I listened to Michigan people this morning and I could feel a lot more sympathetic toward them if their own legislature had not made the State of Michigan a part of what I believe is a conspiracy against the American people in the operation of the Interstate Oil Compact Commission. Even the Commission gives lipservice to freedom of enterprise. Their bulletin of June 1, 1948, says that it strongly opposes the trend toward nationalization of the petroleum industry.

I likewise oppose it, but I would like to back up and remove some of the trend that has already taken place. I think the views of the chairman at the time that this legislation was adopted, if looked into today would be found to be truly prophetic, as to what would happen once these controls went into operation. True enough, the interstate oil campact in article 5 states:

> It is not the purpose of this compact to authorize the States joining herein to limit the production of oil or gas for the purpose of stabilizing or fixing the price thereof or create or perpetuate a monopoly, or to promote regimentation, but is limited to the purpose of conserving oil and gas and preventing the avoidable waste thereof within reasonable limitations.

The leaders in the interstate oil compact know that they have not only the above congressional prohibition, but that they enjoy no immunity from the Federal antitrust laws.

Gen. Ernest O. Thompson, of the exas Railroad Commission, in addressing a meeting of the compact commission on April 11, 1946, at Tulsa, said:

> The oil compact cannot legally consider price. The oil compact is by law permitted only to consider waste prevention in the production of oil and gas. If we go outside the charter we are all individually and separately subject to the antitrust laws.

Yet there is no doubt in my mind that the compact commission has limited the production of oil to stabilize and raise prices and has thus aided in the trend toward monopoly in the oil industry.

The CHAIRMAN. Were those last words your words or those of Mr. Thompson?

Mr. HADLICK. Those were my words, Mr. Chairman. I thought I said "end quote" at the end of "antitrust laws" there.

Now for a long time the Interstate Oil Compact Commission had a committee on economics. I am not certain whether it still has it or not. But for its value, I call your attention to the front cover of the National Petroleum News of August 20, 1946, showing the workingest committee of the Interstate Oil Compact Commission. The photograph is captioned "Economists Furnish Comprehensive Supply-Demand to Compact." Here is what appears before the picture:

> This is the workingest committee I have ever been on.
>
> That is the way one member of the Interstate Oil Compact Commission's economics advisory committee described busy meeting schedule of the group in preparing its quarterly supply-and-demand report which said cooperation of the entire oil industry would be needed to meet demand in some areas. The committee met in Great Falls, Mont., all day August 9, 10, and 11, in order to work out details and have final report ready for compact meeting August 11–13.

Members of the economic advisory committee of the Interstate Oil Compact Commission are shown here during a brief pause at the long session at which they made final revision in their supply and demand. Clockwise around the table: John W. Boatwright, Standard of Indiana; J. H. Struth, of Dallas; Courtney Brown, Jersey Standard; Oliver Ambrose, Tidewater; Austin Cadle, Standard of California; George Randall, Standard of California; Clarel B. Mapes, Western Oil and Gas Association; Richard J. Gonzales, Humble; Joseph Ellender, Texas Co.; James V. Brown, National Petroleum Council; A. J. McIntosh, Socony-Vacuum; Fred Van Covern, American Petroleum Institute; J. M. Sands, Phillips; J. H. Salmon, Shell.

In 1948 the executive secretary of the compact commission in explaining the economics committee to a Senate committee said:

After a number of years we decided we needed the economics and advisory committee. You understand that the Independent Petroleum Association, of which Mr. Russell Brown, whom you all know, is the head, had been making these estimates for a long time. The Bureau of Mines had been making these estimates for a long time. * * * We selected these men about 3 years ago to assist us, together with the Bureau of Mines, together with the American Petroleum Institute who had been giving it. We picked what we thought were the best economists in the world. They were not selected by the compact commission. I will tell you who they were selected by. They were not selected by the oil companies. Prior to that time, we had had an advisory body known as the economics advisory council. They consisted of Joseph E. Pogue, Chase Bank; Alexander Sachs, and Dr. E. DeGolyer. For years they had recommended and met with us from time to time. They got together and said, "We think you fellows need," talking to the commission, me, if you want to say it, talked to me first and said, "We will reach a bunch of economists over the United States. We will choose them not from the companies."

I think he overemphasized "not from the companies" in view of the list that I read you. To continue the quote:

And they picked out the leading economists over the United States. They said to me, and here is the background of the committee, "We think this would be a good bunch of fellows for you to recommend to take our place and they will do you some good. They will really show up whether the Bureau of Mines and these other organizations are giving the States the proper form."

So we appointed them and they have been making reports to us ever since. They are published and put in our statistical bulletins along with the reports from the Bureau of Mines, along with the reports from the American Petroleum Institute, along with any other reports we can get.

Now just to refer to one of their reports, January 1, 1949, compact comments, published by the Interstate Oil Compact Commission, on page 4, says:

In view of recent developments affecting demand, the economics and advisory committee revised downward by 3 percent the demand estimate made in its August 31 report for the winter of 1948–49. The committee now anticipates that demand during the present winter will be 4 percent higher than a year ago, assuming normal weather conditions and continuation of generally good business. The committee also estimates that total petroleum demand for the year 1949 will be nearly 6 percent more than in 1948. As to supply, the economics advisory committee reported, "The supply of all oils, domestic and foreign, required to meet the anticipated demand of 6.5 million barrels during the entire year of 1949 will be somewhat less than is being supplied in the fourth quarter of 1948. The required supply during the first quarter of 1949 is about 190,000 barrels daily below current levels. The committee has assumed imports to be approximately 545,000 barrels daily during 1949. If this quantity of oil is received from foreign sources, and if demand and stock changes conform to the estimates included herein, domestic production of crude and natural-gas liquids should average 5,550,000 barrels daily and 425,000 barrels daily respectively."

Mr. Chairman, if a group of companies by themselves sit down and lay a pattern of future conduct for the restriction of supply and demand they would be definitely in violation of the laws of the land.

I think I am proper in saying that I think the avenues of approach to avoiding the laws of the land, such as the interstate oil compact, and all those other things, should be swept aside, because in that time, since the Connally Act was made permanent, we have seen the price of oil go from $1 to $2.90 a barrel.

Now I want to say a few words on imports. I cannot add much to your committee's study with reference to the problem of imports, but I can say without domestic proration and its other phony supports, all in the name of conservation, the international oil cartel could not operate as it has, and for which it is now under scrutiny by the Department of Justice. But it seems odd to read in the papers that those charged with conservation in this country should set up such a furor over imports.

If there is need to hold back production in this country, then we should welcome imports. If production controls are phony and part of it is a price-fixing scheme which many of us believe, then the domestic production would care for itself and talk of limitation of imports would be unnecessary.

The Wall Street Journal for April 15, 1953, reported that Socony Vacuum Oil Co. and the Standard Oil Co. of New Jersey were reducing their crude-oil imports into the United States during the second quarter of 1953. The article says in part:

> Gen. Ernest O. Thompson, head of the Texas Railroad Commission, the oil regulating body, made the announcement yesterday. He said the commission had been notified by F. W. Bartlett of Socony Vacuum Oil Co. that Socony will cut daily imports by 5,000 barrels for the next 4 months.

If the committee desires a lead on how imports are limited without congressional intervention or sanction, there is a good one. This announcement from General Thompson came at a time when Texas had cut April allowable production of crude oil some 100,000 barrels a day, and had made reductions in each of the previous several months. This effort to not only hold back domestic production but to limit imports should answer for all time any questions as to the purpose of proration laws and the inimical legislation that backs them up. The only State in the Union that I know of that has a true oil conservation statute is California. That State statute prohibits waste and means it. But I must hastily correct any impression that proration does not exist in California. It does exist, illegally, perhaps, operated by a committee of oil producers.

I want to add a word on pipelines. Control and operation of crude oil and product pipelines should be carefully scrutinized by this committee. By law, these pipelines are common carriers, yet they are operated as plant facilities. In the case of product pipelines, the refiners used to ship the product by pipeline and by the jobber or other buyer with the rail freight. There were some decisions casting doubt on the legality of phantom freight thus charged, so the refiners changed their method of billing from a group price plus the freight to a net delivered price. They just accomplished the same thing, namely, a hidden phantom freight that they do not pay.

In the Middle West, the refiner-shipper over the product pipelines pocket as much as 2 cents per gallon from the pipeline operations.

Now just a word on depletion. While the subject of taxation does not fall within the purview of this committee, I believe that in connection with any study of petroleum it should be apprised of the special

tax advantages enjoyed by the producers of crude oil. These special advantages relate to the 27½ percent depletion allowance and the privilege of writing off drilling and development costs as operating expenses. First of all, I should like to present a copy of a resolution on the subject adopted at the last convention of the National Oil Marketers Association, as well as an outline of the history of the legislation, granting these subsidies to the crude-oil producers. I submit these two documents for the record, Mr. Chairman.

The CHAIRMAN. They will be made a part of the record at this point.

(The data referred to follow:)

RESOLUTION NO. 2—DEPLETION ALLOWANCE

Whereas the vast expansion of Government expenditures with its attendant deficit financing and inflationary peril makes it essential that all business and industry bear their fair share of the tax burden and that no portion of an industry enjoy a tax advantage that results in injury to another segment of such industry; and

Whereas the producers of oil and gas and the minerals production industry enjoy certain special allowances for depletion over and above a true rate of depletion of their capital; and

Whereas the producers of oil and gas also enjoy the special privilege of writing off as expenses of doing business their investments in drilling and development of oil fields; and

Whereas such subsidies and special privileges accorded the oil, gas, and mining industries in the Federal income tax laws deprive the Government of needed revenue, thereby increasing the tax burden on all the other taxpayers including those in the oil industry who are not engaged in production, and giving integrated oil companies disproportionate profits from production which are available to subsidize their marketing activities: Now, therefore, be it

Resolved by the National Oil Marketers Association in meeting assembled at Chicago, Ill., this 12th day of November 1952, That:

1. The Congress of the United States be urged to eliminate the principle of "discovery" depletion from the tax laws, as well as all fixed percentage allowances for depletion (such as the 27½ percent depletion allowance for oil and gas) and, as to the oil, gas, and mining industries, prescribe that value for the purpose of computing true depletion shall be the value of the property as of March 1, 1913 (if acquired prior thereto), or "cost" if acquired thereafter; and, that the depletion allowance be treated as is depreciation under the income tax laws, i. e., when the depletion allowance thus authorized equals the capital originally invested (or in the case of purchase made prior to March 1, 1913, the fair market value as of that date) no further allowance shall be made.

2. The Congress of the United States be urged to amend the income-tax laws so as to require drilling and development costs in the oil and gas industry to be capitalized in the same manner as such capital investments are capitalized in other industries.

DEPLETION

Definition: Deplete means to exhaust, hence depletion is the exhaustion of a capital asset. One eminent authority defined depletion as follows:

"Depletion is that deduction from operating income provided to cover capital consumed in the operation of a mine or an oil or gas well, forest, or natural deposit."

An annual depletion allowance for tax purposes is merely a method of allowing a credit for that portion of the capital assets that have been removed and sold. Annual depletion, like depreciation allowed on other capital equipment or properties, is intended primarily to compensate the taxpayer for the exhaustion and wasting of wealth.

As in the case of depreciation no one can take issue with the principle of depletion since income only is taxable under the Federal income-tax laws, and not capital investment.

The start: When the income-tax law for the Federal Government became effective on March 1, 1913, and until the year 1918, the basis for computing deple-

tion, as in the case of depreciation, was the "value" as of March 1, 1913, or the "cost" if acquired thereafter.

As late as the year 1916 in legislating with reference to depletion the Congress of the United States included safeguards against evasion by declaring: "That when the allowance authorized * * * shall equal the capital originally invested, or, in case of purchase made prior to March 1, 1913, the fair market value as of that date, no further allowance shall be made."

That should have remained the basis for depletion—a method whereby a taxpayer in the natural resource industries avoided paying taxes on capital—depletion being computed on the value of the property as of March 1, 1913, or the cost, if purchased since that time.

But here is what happened:

The first error: In 1918 the Congress provided for discovery depletion or discovery value for purposes of computing depletion. Under this method when an oil or gas well was brought in an engineering concept of the amount of oil that would be produced was set up on the books and thereafter this became the so-called capital subject to depletion. As one eminent authority said:

"In the allowance of discovery depletion on mines, oil and gas wells the increment in value which takes place subsequent to March 1, 1913, by reason of the discovery of the mine, oil or gas well, escapes taxation. That is the only case under the tax law where increment in value since March 1, 1913, escapes taxation."

It is this first error of the Congress in providing for "discovery depletion," or a method for the oil and mining industries to escape taxation on increment in value which lead 8 years later on to the comedy of errors in the establishment of percentage depletion.

In current discussions of percentage depletion today this fundamental error of providing for "discovery depletion" is much overlooked.

The second error, percentage depletion: In 1926 Congress provided for an arbitrary alternative to cost or "discovery depletion" by authorizing an oil or gas company to deduct 27½ percent from the gross income from any property producing oil or gas. This 27½ percent depletion allowance or deduction is computed as a percentage of income from each property without regard to the amount of the investment or to the amount of prior depletion deductions. One saving condition was attached; namely, in no case may the deduction exceed 50 percent of the net income from the property—something that seldom occurs.

Obviously, over the life of an oil or gas producing property the depletion allowance will not only exceed the investment or cost, but it will go on and on and even exceed the value on date of discovery.

In the year 1947 the average of oil companies worth over $100 million claimed percentage depletion of more than 13 times actual depletion on an original cost basis. To visualize this just suppose you could take the purchase price of a new truck and then write that amount off as depreciation 13 times over.

In the January 1946 issue of Fortune magazine appeared a long article on Amerada Petroleum Corp., a crude-oil-producing company. The article stated in part:

"Amerada's tax situation is a businessman's dream. The corporation quite literally, does not have to pay any Federal income tax if it does not want to. This is due to the highly reasonable provisions of the internal-revenue law designed for producers of crude oil. Amerada pays so little in Federal income taxes that it does not even segregate the tax item on its annual reports. In wartime, though Amerada's profits soared, it made no provision for excess-profits taxes, and from 1943 to 1944 its normal Federal income tax actually declined. In 1944, on a gross of $26 million, a gross profit of $17 million, and a net after all charges of $5 million, Amerada's allowance for its Federal income tax was only $200,000.

On today's market this 27½ percent depletion allowance amounts to from 60 to 65 cents for every barrel taken out of the ground. However, major oil company representatives have testified before the Congress that while this statutory depletion allowance of 27½ percent enters into the calculation of their tax the general practice in keeping their books is to charge only "cost" depletion.

An example of 27½ percent depletion: A simple hypothetical example will illustrate the problem.

Assume that a corporation purchases oil land for $500,000 cash; that this land is estimated to contain 5 million barrels of oil; and that it will have no residual value when all the oil has been taken from it. According to such facts, then, on the basis of elementary accounting the cost of each barrel of oil extracted, i. e., the unit depletion charge, will be 10 cents per barrel.

Next, let it be supposed that 1 million barrels of oil are removed from the deposit during the first year of operation. Then the depletion cost for such first year, according to accounting, will be $100,000. If the expenses exclusive of depletion, but including depreciation total $250,000 and if sales of oil amounted to $1,250,000 the net income will be $900,000.

Despite what seems to be the obvious and equitable basis as outlined above the income-tax law through the 27½ percent depletion allowance to oil and gas companies gives an arbitrary and unusual twist to oil company accounting.

Using the 27½ percent depletion allowance to the same set of facts above set forth we find that instead of $100,000 depletion by normal accounting methods the company would have the sum of $343,750 as a depletion deduction—more than 3 times as great. Hence, for tax purposes the company using the 27½ percent depletion allowance would have net income for tax purposes of $656,250 instead of $900,000 under normal accounting procedures.

Transition from discovery depletion to percentage depletion: It has been said that the Treasury Department under Andrew Mellon in the twenties found the administration of the 1918 error of "discovery depletion" too cumbersome and difficult to administer in working out the estimates, etc. Hence, the change in 1926 to a straight 27½ percent deduction from income for purposes of a depletion allowance.

The errors criticized: In 1933 the Acting Secretary of the Treasury aimed this criticism at the percentage depletion allowance:

"Our experience shows that the percentage depletion rates set up in the law do not represent reasonable depletion rates in the case of the designated properties, but are much higher than the true depletion to which the taxpayer is fairly entitled. Moreover, these provisions enable a taxpayer to obtain annual depletion deductions, notwithstanding the fact that he has already recovered the full cost of the property. The deductoin is, therefore, a pure subsidy to a special class of taxpayers. For this reason the Treasury recommends that these provisions be eliminated, in order to put all taxpayers upon the same footing."

Treasury Department continues to criticize percentage depletion: The Treasury Department since 1933 has repeatedly urged the Congress to either remove or reduce the percentage depletion allowance. When Henry Morgenthau, Jr., was Secretary of the Treasury, in 1942 he stated to the Ways and Means Committee:

"Percentage depletion: A second example of special privilege is the allowance for depletion. At the present time the owners of mines and oil wells are allowed to deduct so-called percentage depletion or cost depletion, whichever is higher. Percentage depletion consists of a certain percentage of gross income (27½ percent in the case of persons having an economic interest in oil and gas properties), the deduction being limited to 50 percent of the net income from the property. Under this arrangement percentage depletion goes on even after 100 percent of the cost is recovered and may substantially exceed depletion based on cost.

"In 1937 the President and the Treasury recommended the elimination of percentage depletion, but no action was then taken. The war has intensified the necessity for eliminating any such special favor to one group of taxpayers. The removal of this special privilege would yield $80 million a year.

"One of the reasons asserted in behalf of percentage depletion for oil and gas properties is that it stimulates exploration for such properties. If this is a proper objective it would be better achieved by a special depletion allowance to those who do explore without indiscriminate extension of the same favor to all owners. At the convenience of the committee, we shall place before it a plan directed to this purpose.

"So far as minerals, other than oil and gas are concerned, it is believed that an adequate stimulus for exploration would remain if the percentage allowance for depletion purposes were substantially reduced or percentage depletion were eliminated."

In 1951 Secretary of the Treasury John W. Snyder in recommending a reduction in the depletion allowance for oil and gas from 27½ percent to 15 percent, stated:

"Fully as important as improved enforcement is the need for improving the tax structure in those areas which enable favored taxpayers to escape their fair share of the burden.

"One of the major structural defects is percentage depletion available to oil and mineral producers. This is costing the Government and, therefore, taxpayers in general, hundreds of millions of dollars each year.

"Under the percentage depletion provisions, owners of mines and oil wells are allowed to deduct a specified percentage of their gross income without regard to the capital cost of the property. These arbitrary rates of deduction range as high as 27½ percent of gross income in the case of oil and may amount to 50 percent of the net income. Unlike other capital-recovery allowances, percentage depletion continues to be deductible even after 100 percent of the investment has been recovered tax free. Thus total deductions may eventually amount to many times the taxpayer's actual investment."

Other taxpayers criticism of percentage depletion: A few of the organized farm and labor groups have criticized the depletion allowance but the public generally perhaps knows little, if anything, about it. One group stated:

"Depletion allowances should not be excessive as they are for certain products such as petroleum. Depletion allowances should bear a reasonable relationship to investment costs and to the probable life of the producing resource and generally should not be in excess of the standard set by these."

Another group commented:

"One of the greatest needs in tax revision is to plug loopholes through which large financial interests are getting billions of dollars in tax advantages. The tax law passed by the 81st Congress is, to a considerable extent, a special interest law handing billions over to to favored corporations.

"The depletion allowance provisions which allow oil companies up to 50 percent of their net income for depletion of their crude oil reserves is nothing more nor less than a gigantic subsidy to an already overly wealthy and highly concentrated industry.

"If the principle of the oil-depletion allowance is to be used at all, then farmers should be given equally handsome depletion allowance on their land; workers should be given a liberal depletion allowance on the basis of their age, for bodies also wear out—it should be spread on an equitable basis clear across the list of taxpayers. It is our opinion that the depletion allowance should be put on a realistic basis, and not be based on a mythical figure conjured up by lobbyists for the special interest involved."

No end to demands for extension: The oil companies haven't sought added relief for their stockholders as yet but no doubt it will not be long before they adopt the reasoning of the American Mining Congress that says:

"In the case of the mining company a reasonable depletion allowance is made (either on the percentage or the unit basis) for the exhaustion of its principal capital asset—the mineral in the ground; and a similar allowance should be made to the stockholder to represent the exhaustion of his interest in the mining property. Otherwise the stockholder is being taxed upon what is in reality merely a return to him of his capital.

"Accordingly, distributions to mining stockholders should be considered to represent depletion—and hence be nontaxable to the stockholders—to the same extent that depletion is allowed against income to the corporation."

The oil companies argument for present 27½-percent depletion: Principal argument for depletion allowance is that it provides the "incentive" to risk taking, and the operator with the incentive to rerisk his income in finding more oil.

Sidney Swensrud, president of Gulf Oil Corp., told the House Ways and Means Committee:

"The essential requirement of discovery is capital—a continuous and enormous stream of it—available to those who have the necessary combination of know-how and willingness to take risks. That is why the depletion allowance has been such an excellent handmaiden of discovery. Its effect has been to help provide not only capital but the necessary stimulus to encourage producers to keep reentering the business as the old wells decline. * * *

"We have learned from experience that the 27½-percent depletion provisions, working in conjunction with the right to deduct intangible drilling costs as current expense, has been the strong incentive which was constantly needed."

But most spokesmen on the subject of depletion do not go into such detail. They gloss over the depletion allowance as if it were merely a recovery of capital. At ceremonies before the American Petroleum Institute meeting in Chicago in November 1951 honoring Ernest O. Thompson of the Texas Railroad Commission, Mr. Thompson said:

"Depletion is the recognition that every time you take out a hundred barrels of oil there is just that much less oil (capital) in your reserve under the ground.

"If the people generally knew these facts, there would be no effort made to change the law; I mean there would be no successful effort possible in the face of an informed electorate."

If one takes the words to mean approval of the present 27½-percent depletion rate for petroleum then Mr. Thompson failed to spell it out properly. If Mr. Thompson means recovery of capital tax-free, that is another thing. No one can quarrel with a system of permitting a return of capital tax-free in resource industries. It is quite another thing to keep returning the capital over and over again tax-free. As one of the experts said years ago:

"This is the only case under the income-tax law where increment in value since March 1, 1913, escapes taxation."

More resource industries given percentage depletion: In the 1951 act instead of reducing depletion rates the Congress raised many of the minerals and added numerous others to the list entitled to from 5 percent to 15 percent depletion allowance. The gravy train has added more friends and any attempt to remove percentage depletion must come from the people. One largess begets another. The coal people, in urging a rise from 5 percent to 15 percent for coal, pointed out:

"Why should coal receive only 5 percent when the next lowest rate is 15 percent and oil and natural gas, coal's principal competitors, receive 27½ percent? This inequity was harsh under the old lower rates. It will be particularly severe under the new proposed much higher rates."

So, coal mines in the Revenue Act of 1951 had their depletion allowance raised from 5 percent to 10 percent and a whole new set of so-called minerals from slate to brine wells were taken in for 5 percent depletion.

The remedy: If there is not a remedy soon the oil, gas, and mineral industries will pay less and less taxes and the rest of industry larger taxes. A sound tax system should not permit one segment of business to ride roughshod over others.

The remedy is not simply a reduction in the amount of percentage depletion from 27½ percent down to 15 percent, but a revocation of the percentage depletion allowance entirely, elimination of the "discovery depletion" rule that prevailed before 1926 and a return to the law as it first existed under income-tax procedure whereby depletion is based on value as of March 1, 1913, or cost, and elimination of any depletion allowance after recovery of full value as of March 1, 1913, or of full cost if acquired after that date.

Drilling and Development Costs as Expense

The problem: Under Treasury Department regulations, later approved by the Congress, drillers of oil and gas wells have the option to deduct, as an expense, intangible drilling and development costs.

This twin of the crude oil producing tax evasion scheme was described by Secretary of the Treasury John W. Snyder before the House Ways and Means Committee in 1951 as follows:

"In addition to the highly favorable depletion allowances, oil producers can immediately deduct for tax purposes a substantial part of their outlays for drilling and development. The amounts of capital investment thus written off at the outset have no effect on the future percentage depletion deductions. This results in a double deduction with respect to the same capital investment. The combined impact of percentage depletion and the privilege of deducting drilling and development costs as a current expense is to wipe out the tax liability on incomes running into millions of dollars."

The start was illegal: Beginning in 1918 the Treasury Department, by regulation, provided that "intangible development" costs could be deducted as an expense provided an oil producer made a binding election to do so consistently.

This regulation remained unchallenged until in 1945 when the Fifth Circuit Court of Appeals held invalid the said regulation. The Tax Court on March 5, 1945, held that the Treasury regulations insofar as they purported to give taxpayers the option to treat drilling and development costs as an expense was contrary to law and that the amounts expended should be charged to capital.

Legalized by Congress: Promptly thereafter the Congress (79th 1st) brought in and enacted House Concurrent Resolution 50 legalizing the procedure. The text of the resolution is as follows:

"*Resolved by the House of Representatives (the Senate concurring)*, That in the public interest the Congress hereby declares that by the reenactment, in the various revenue acts beginning with the Revenue Act of 1918, of the provisions of section 23 of the Internal Revenue Code and of the corresponding sections of

prior revenue acts allowing a deduction for ordinary and necessary business expenses, and by the enactment of the provisions of sections 711 (b) (1) of the Internal Revenue Code relating to the deduction for intangible drilling and development costs in the case of oil and gas wells, the Congress has recognized and approved the provisions of section 29.23 (m) (16) of Treasury regulations 111 and the corresponding provisions of prior Treasury regulations granting the option to deduct as expense such intangible drilling and development costs."

Explaining the purposes of the resolution was House Report No. 761, 79th Congress, 1st session, wherein it is stated:

"The purpose of the resolution is to remove any doubt as to the validity of Treasury regulations giving to the taxpayer the option to either capitalize or charge to expense intangible drilling and development costs in the case of oil and gas wells. These regulations have been in effect for more than 28 years, and the Congress has continued, in successive revenue acts adopted since that time, the basic statutory provisions from which such regulations are derived. Furthermore, in section 711 (b) (1) (H) of the Second Revenue Act of 1940, relating to the excess-profits tax, the validity of the regulation was expressly recognized by statute. Section 711 (b) (1) (H) of the Internal Revenue Code specifically provides for an adjustment to the net income of the base-period years where the taxpayers' deduction for intangible drilling and development costs had been abnormal or disproportionate during those years. The Treasury Department in 1942 recognizing that the interpretation of the statute by the regulations had become a part of the statute, recommended in the revenue bill of 1942 that the expensing of development costs be eliminated from the statute for 1942 and subsequent years. Congress was unwilling to adopt this recommendation of the Treasury and expressed its desire to continue the regulation in effect."

Other industries: The oil industry is the only industry that enjoys this particular type of tax avoidance. The American Mining Congress companies of the failure to permit operators of mines to deduct development costs, saying:

"At present the Treasury requires that all development costs until a mine reaches the production stage be treated as capital expenditures which may only be recovered through the depletion allowance. Such preproduction development costs, even though subsequent to discovery, may not be charged off as operating expense."

Mr. HADLICK. That completes my statement, sir.

The CHAIRMAN. Any questions, gentlemen?

Mr. HESELTON. Mr. Chairman?

The CHAIRMAN. Mr. Heselton.

Mr. HESELTON. First, I want to compliment you on a very comprehensive and interesting and I believe a very useful statement to this committee in a troublesome field. I have no doubt but that you are aware of the report which was filed by the minority of this committee on August 14, 1951, when the interstate oil compact was further extended to September of 1953. That, however, addressed itself in a limited way to the problem you put before us and simply would have called upon the Department of Justice to review carefully the operation of the commission in terms of the provisions of article 5.

I just want to read two portions of that, and have your comment on it:

However, we wish to point out that within the compact itself, article 5 gives clear recognition to the possibility of actions quite beyond that purpose—

That is, the prevention of physical waste—

which could be both in violation of existing law and most detrimental to the domestic consuming public and the national security.

The text of that article is as follows:

It is not the purpose of this compact to authorize the States joining to limit the production of oil or gas for the purposes of stabilizing or fixing the price thereof, or create or perpetuate monopoly or to promote regimentation, but it is limited to the purpose of conserving oil and gas and preventing the avoidable waste thereof within reasonable limitations.

We were not successful in obtaining the adoption of that amendment. However, is it your opinion that the Department of Justice might very well interest itself in the operation of the compact and, for that matter, because it underlies the operation of the compact, the operation of the various State commissions in setting up these allowables?

Mr. HADLICK. Yes; I was rather surprised that the Department of Justice seemed to have a very little interest in investigating the operation of the compact. I have mentioned it down there off and on for 15 years. All you have to do is pick up a trade journal and see what happens at the compact meetings. They are run in the background by the major oil companies and their representatives.

Mr. HESELTON. In fairness to the present Department of Justice, I think you will probably agree with me that they have not had an opportunity to go into this thing yet to the degree they might well want to.

Mr. HADLICK. I agree with you thoroughly.

Mr. HESELTON. The previous Department representatives who have been up before this committee indicate a surprising lack of interest which lead, I am sure, to the filing of that minority report. I do not see how anybody who watches the operations of the setting up of these allowables and sees where they are placed and determined with reference to the estimated demands that are furnished by the oil industry to the State commissions, can help but realize that the action taken definitely does have an effect on price.

If I recall correctly, before the Senate committee that you were working with, the secretary of the compact commission, and I believe he is still secretary, made the flatfooted statement that there was no question, when you limited production, you affected price. There cannot be anything else but that.

Mr. HADLICK. That is right.

Mr. HESELTON. In terms of this particular problem that is facing us, I have before me the 5-year consolidated statement of the Phillips Petroleum Co., which was the company that led off, as I understand, by announcing a 25-cent increase in the price of crude. I find that in 1948 the net income per share was $6.01. In 1949 it dropped to $3.68. In 1950 it increased to $4.24. In 1951 it increased to $5.11, and in 1952 to $5.17, which indicates a very healthy and prosperous concern. Of course, we are all glad that is true. However, if you turn to the common shares, the common stock outstanding, that runs in 1948 from $12,093,834 to 1952 with $14,563,903. So the average earnings per share does not truly reflect the prosperous condition of the company. We frequently heard in this committee a number of reasons assigned for these previous price increases. No. 1 is that it has been said—and I think you referred to it—the tanker situation was serious. The rates were high and, therefore, in getting the product up the east coast they were forced to increase the cost. You intimated and I think it is true, and if you have any exact information I would like to have it in the record, that the tanker situation has eased considerably, and that there had been quite a drop in the rates in recent months. Is that true?

Mr. HADLICK. I understand, yes. I understand tanker rates are today the lowest they have been since the war. At one time they were what they called 200 percent over Maritime Commission charter

rates, and now they are down to Maritime Commission charter or below.

Mr. HESELTON. Another thing that has been frequently urged as a reason for a possible increase in price to the consumer has been that it would encourage drilling. As a matter of fact, the figures that I have seen not only as to actual drilling but as to prospective drilling indicates that a very substantial amount of drilling is being done and will be done, and that those estimates were furnished before this price increase was announced. Do you know whether that is true?

Mr. HADLICK. I believe that to be true, although, Mr. Heselton, I am not fundamentally a man to follow production matters, I think the statistics would bear it out. The thing that is always anomalous to me is that the wells in this country have to be held back to 21 days or a certain amount of production per day, and either the oil reservoirs or something in the rest of the world is not quite the same so they can just open the well and produce all they want. There is a phony somewhere.

As I tried to picture, the international cartel, which was all written up by the Federal Trade, at least they told part of the story, could not function right until they got proration working in this country, and they got it working in this country, except California. They could never get the law through there, so they said to the devil with the antitrust laws. They so testified in open committee hearings.

Mr. HESELTON. Incidentally, California is not a member of the compact commission.

Mr. HADLICK. That is right. But they testified in open committee that this committee of producers set the allowables. Of course, anyone outside can produce more, but then no one will buy his crude. You see, they have their penalties. But at the same time, from a true conservation standpoint, when you produce a well in California you take care of the gas into commercial lines or recycle it back into the ground or the attorney general will close your well. That is quite contrary to the flaring of gas in Texas as all of you gentlemen have witnessed. They have made some strides down there, I think, in cutting out the flaring of gas. But that is your big economic waste from the production-of-oil standpoint. If a man recycles the gas back into the well, it is nobody's business how much oil he takes out of that well, and it will not make any difference in a hundred years or 10 months. You will get just as much oil because you will use the same pressure.

Mr. HESELTON. In following developments in the press and particularly in the New York Journal of Commerce, I have noted that there is a strong indication that the industry as a whole was taken by surprise by the Phillips action. I have before me a column appearing in the June 23 edition. After discussing the supply situation, emphasizing that it was well up, and I believe today there is an indication of confirmation of that fact, in all of the products it quotes an unnamed major company official in its conclusion this way:

> Anyway you slice it, the industry is overproducing itself and will be heading for price trouble if it keeps this up.

This all leads me to want to know whether or not the actual excellent supply position has not motivated someone, somewhere, along the line, to initiate these steps in order to, shall we saw rectify it, in order that there will appear to be a warranty for additional increases over and above what we have now. Or do you think that is likely?

Mr. HADLICK. Well, let me answer it this way: I don't think you have seen an end to your increases because of the foundation that has been laid for them. All the integrated companies have to do is to go down to Texas and place their nominations at less than they have been and Texas will reduce its allowables.

But to get back to your question. Just before the rises on the east coast, as I said in my statement, the market was generally known to be what we call sloppy, meaning a smart buyer could buy under the market. Many a fuel oil dealer on the east coast was debating, "Should I put in a cargo of fuel oil now or should I wait?" Most of them were saying, "Well, there are such big stocks. There are some 80 million barrels of No. 2 fuel oil in storage as against 60 million last year, about 20 million barrels more. Why should we stock up now? Why should we be in a hurry? Tanker rates are down."

Mr. HESELTON. We have had some unfortunate, uncomfortable, rather close experiences in the northeast section of the country, which after all does not have any oil wells, and is at the end of the run, so to speak. But in the past the emphasis at this time of the year on the part of most companies has been to induce people who have storage capacity, even household storage capacity, to buy and to offer them inducements in terms of price reductions. This year, for some reason that I hope will be made clear by some one before we get through with these hearings, they reversed the process and apparently if not consciously, unconsciously are lending themselves to the possibility of a shortage in the Northeast next winter.

That, I think, must be taken into consideration by this committee as well as by the companies. I feel this way, that the questions the chairman asked this morning, are so vitally important, and so very significant, that I hope very much that these companies, which I understand will be coming in here next week, will prepare exact and definite answers to every one of those questions that have been asked.

I think they need to be answered and that the public is entitled to the information.

I have a series of questions which perhaps should be addressed to them. But since you have testified in such an important way in connection with this overall program, I would like to ask them of you. If you care to consider them further and file the answers, that would be quite all right. What is the relation in your opinion of crude oil prices to gasoline prices?

Mr. HADLICK. Well, there is a normal relationship. About a cent a gallon for gasoline for every 25 cents a barrel rise in crude.

Mr. HESELTON. Are gasoline price changes made automatically so far as you know when crude price changes are announced by crude suppliers?

Mr. HADLICK. May I have that again, Mr. Heselton?

Mr. HESELTON. So far as you know, are gasoline prices made automatically when crude price changes are made by crude suppliers?

Mr. HADLICK. Yes. If more than one raises the price of crude they come automatically. I have a story I would tell you on that, if you would allow me. I am often asked who raises the price and who runs the oil industry. About 25 years ago I was on duty with the 4th Cavalry out in Fort Meade, S. Dak. They came up with a demonstration of mountain artillery from Fort Robinson. I don't know

if you have seen it but it is a sight to behold, each battery with its 75 jackasses wandering over the countryside. All you do is tinkle the bell on the white bell-mare and down they come. That is how it is in the oil industry. We have our bell-mare in the oil industry.

Mr. HESELTON. The next question I wanted to ask is, is there a fixed relationship between adjustments in crude and gasoline?

Mr. HADLICK. I don't know that there is a fixed. The nearest I could say is on my 30 years hanging around the oil industry about a cent a gallon in gasoline on every 25-cent rise in crude. That has been historical. You see, that thing changes, Mr. Heselton. For instance, in the old days, home heating oil was delivered for 7 or 8 cents. That meant at the refinery it was 2 cents or something like that. Some people even in the fuel-oil distribution end now feel that the big companies are saying now the home heating oil has to carry its full share of the return on the crude oil. But the gasoline never comes down. You see, both of them always go up.

Mr. HESELTON. What relationship is there between tank-car quantity prices and dealer and service-station prices?

Mr. HADLICK. Well, normally dealers work on a 4-cent margin. A jobber works on 2½ cents. A tank-car price, roughly, would be 6½ cents under retail price. That is normal. There are some two and three-quarters cents margins, some flat two and two and a quarter. Those margins, incidentally, for dealers and jobbers have not fluctuated much in 15 or 18 years.

Mr. HESELTON. You speak of the integrated companies. As I recall it, that constitutes about 30 of the major suppliers in the country?

Mr. HADLICK. Yes. Actually, about 17 to 20 are the bigger ones. There are a number like Ashland Oil & Refining who are integrated yet not dominant, except perhaps right around their own refinery.

Mr. HESELTON. In your experience is it your opinion that historically some one of the companies had to take the role of the bellwether and announce an increase, however popular or unpopular it turned out to be, and once that has been tested in the market place, and if there is no great outcry in the public opinion, if there is no demand for any explanation, the rest of them can follow in line and do follow in line without too much of a delay?

Mr. HADLICK. That is right.

Mr. HESELTON. Do you know whether any of these companies use a formula for determining their price structure?

Mr. HADLICK. I have heard it testified. Mr. Marshall of the Standard of Indiana in the Madison oil case gave long pages of testimony of how they arrived at their pricing of gasoline. You see, it changed over the years. There was a time in the old days when the Rockefeller interests controlled oil only through the refinery. They didn't want to have anything to do with the owning of oil lands. Then up to about 1925, for instance, the Standard of Indiana was predominantly a crude buyer. In other words, they bought more than 50 percent of the crude they produced. So they fixed their price on cost of crude, and when crude was selling under the market, Standard of Indiana wound up with a very high retail price which put the governor of South Dakota into the oil business to bring down prices. As time went on they have purchased crude oil properties and today they are predominantly producers. So I don't know how they compute their

prices. They will all give you a formula if you will ask them for it, but if you understand it, I wish you would tell me.

Mr. HESELTON. In connection with the resolution adopted by your association, on the 12th of November, last year, in the first part of that you state your belief in the free enterprise system under which our country has been built, and favor the return of Government to the principles of Founding Fathers by enacting only such laws as set the rules of conduct for all and repeal of such laws as place Government in the position of "owning," "controling" or attempting to "plan" or "manage" business; and I would say you would find very few people in this Congress who would disagree with you on that.

The thing that has caused me to do a little wondering while you have been testifying is the second whereas. Whereas existing laws, decrees, orders, and activities of the Federal and State Governments in planning, controlling, and limiting the production of petroleum have resulted in the monopoly of such industry by a small group of integrated oil companies; have failed to protect the consumer from inordinately high prices; have eliminated a free and competitive market in the purchase and sale of petroleum products; have seriously injured thousands of nonintegrated units in the petroleum industry, and thus threatens even further Government control of the oil industry.

Then, of course, you go on with your recommendations about the repeal of the Connally Hot Oil Act, the State proration laws, and the congressional approval of the interstate oil compact. Those are pretty specific, pointed, and definite charges. If all of those things had happened, and I am not prepared to say whether they have or have not happened, but I suggest to you and to your association that there is a difference between control in the sense of operation of the oil industry, Government operation or ownership, or what have you, and supervision of an industry that has brought about the conditions that your association has suggested now exist. I have in mind that on February 16, 1948, I introduced H. R. 5392 in the 80th Congress, which would create a national petroleum commission. That did not receive a very warm reception on the part of the responsible people in industry.

But I am not at all sure that such legislation might not well be before this committee. I would like your comments.

Mr. HADLICK. Well, I want to state in reference to answering your question, Mr. Heselton, that I am for the capitalistic system in this country. In reading those company's profits, I have nothing against them making profits. But I want them to compete. My people are competing with 1 hand tied behind them. Between here and the coast of Maine you cannot buy products from outside of 9 companies if they will sell you. There is no such thing as a market to buy petroleum products, unless you buy from the big companies that control this market. I do not know. I have often made the statement, and maybe I am wrong, that if an independent tanker of fuel oil got above Long Island, I think it would be sunk some way.

No one in the oil business really goes out broke. They are too clever for that. Nobody is actually sold out at a bankruptcy sale. It is done through extended credit and taking them over. In the Wherry hearings we asked the companies for a couple of years for lists of their

acquisitions. They even had objection to putting it in the record because it took up so much room. Hundreds and hundreds of jobbers are being taken over every year. The competition just doesn't exist in which a jobber buys his supplies.

Mr. HESELTON. Of course, there have been, from time to time, suggestions made, and I am sure in all seriousness, that a remedy would consist in divorcement, and that perhaps the pattern has become so rigid that there is just not any opportunity for what you like to think of, and all of us like to think of as a free competitive system in the production, gathering, processing, and distribution of petroleum products.

Mr. HADLICK. Mr. Heselton, these words, I think, will be prophetic: If the present controls continue, some smart politician—it isn't going to be me, because I don't believe in the principle of it—some smart politician is going to take this one step further, and say, "Listen, we are going to protect the consumer and we are going to have a national petroleum commission that will regulate it." Then oil becomes a utility. I hope that day never arrives.

Mr. HESELTON. Well, the very least I can say at this stage is that I have heard sufficiently from New England as to the consumer reaction to this particular price increase, and particularly in heating fuels at this time of the year in complete reversal of their traditional position, and in terms of the very high price on gasoline when New England has a substantial interest in the rest of the people of the country coming up there during the summer season. It has already started a reaction that may very well bring demands from consumer interests. I might say that a complaint was lodged this week by a responsible organization, the American Automobile Association. They are not running off advocating socialism. But I think a very, very bad piece of public relations is underneath this particular price increase. The public has not been told why, and apparently unless this committee, through the wisdom and foresight of the chairman, had set up these hearings, they would not likely be told why, nor would anything likely be done about it.

Mr. HADLICK. I just want to comment on one thing, Mr. Heselton, on the summer fill-up of fuel oil. A lot of our people up in your area have large storage, but the big companies say "All right, you fill that storage now or you do not get any fuel oil next year." But even if they set a half cent less than next year's prices, you cannot carry fuel oil with your bank credit and losses, you can't carry it from now until November for one-half cent per gallon. But they force them. The jobber has no alternative. Either he takes cargo now for every cargo he gets next winter or else. The second thing I can point out is this:

Up in the Connecticut Valley up there 2 or 3 years ago, maybe 4 years ago, they started a price war on gasoline. They sold gasoline at ridiculous prices. Shell was picked up to take certain stations, American to take certain others, and they have cleaned out the competition in that valley. You could not get the Justice Department to touch it with a 10-foot pole.

The CHAIRMAN. Mr. Beamer?

Mr. BEAMER. I thought you very nicely brought in the point of view of the consumer. I would like to ask you 1 or 2 questions that pertain to the consumer. Would you suggest or state that perhaps

unrestricted production would give the consumer a cheaper petroleum product?

Mr. HADLICK. Yes, undoubtedly. We have a million barrels held in capacity now.

Mr. BEAMER. What would that then do to the total oil reserves, especially in time of emergency? Does that concern you?

Mr. HADLICK. Yes, I am concerned. I am concerned with true conservation. I am concerned with cutting out the flaring of gas, period. If you do that, then you have made a start on conservation. This talk about bottom hole pressure and all of that stuff, they use East Texas as a good example. East Texas is a salt-water-driven field. The rest of them are gas. I can go back to 1927. I had one of those old reports, when the reserves of this country were something like 10 or 11 billion barrels and in the 10 years we would be out of petroleum. Today the reserves are 33 billion and that does not include the gases and condensates. No one knows what is in the oilfields of North Dakota and southern Saskatchewan. The oilfield in this country runs from the North Pole to the Andes Mountains, under the Gulf of Mexico, it is all there somewhere. All of this talk of conservation, you don't hear anything about it in Kuwiat, or any of these other places. They just produce oil. If you will produce under true conservation, I say either don't produce at all or take care of that gas, either in commercial channels or recycling.

Then they have the true conservation principle. Let price be the equator, as Dr. Pogue likes to say.

Mr. BEAMER. There is another important point: I was wondering also whether or not a free-trade program that would permit more crude, residual, or refined oils to come into this country, would that result, do you think, in cheaper prices to the consumer?

Mr. HADLICK. There is no such thing as free trade in international oil. There are seven companies that control it. They say take it in or not, according to what they want. Do you mean if we had free trade?

Mr. BEAMER. Yes. Let me explain free trade. I mean without any tariffs, true reciprocity.

Mr. HADLICK. On one condition. If after operating true conservation here, the defense people, the true defense people, not the stooges they send in but the true national defense, required that we have a certain reserve of not just necessarily reserve in the ground but reserve potential, then I would say it wouldn't make any difference, because price would take care of the world market. On the other hand, if we are going to go the way we are now, and we are going to kid ourselves that we have conservation, then the only answer then is to bring in all you can, because it only follows logically they are saying they are holding this for national defense, and they are holding this to protect our reserves. Then bring in all you can.

Mr. BEAMER. I was going to use the Pocahontas fields in West Virginia as an example. There are miles of coal cars there, and they now are blaming the dumping of residual oils from foreign countries. I am wondering if all of these problems tie together in some fashion or are they planning an excuse.

Mr. HADLICK. They tie in. But let me say, Mr. Congressman, the coal industry forgot about progress. I shoveled coal in my house

even though I was working for the oil industry for many, many years, even up to 8 years ago. But I got very tired of ashes and dust. Now they are coming out with improved furnaces. They have to develop their own fields. They have the opportunity, with this new diesel, of developing a powdered coal that will drive the oil industry out of the diesel supply business. They have to do some research. The coal industry just sat down and did nothing all of these years, and I think you will have to agree with me. They figured it was a reesrve there that the people would buy at any time. The average person, they are not looking for oil today, they are looking for gas in their homes.

Mr. BEAMER. I was not holding a brief for any industry. I merely was reporting conditions that we have had reported to us quite often in the Congress.

I think that is all, Mr. Chairman.

The CHAIRMAN. Mr. Springer?

Mr. SPRINGER. I would like to ask you again this question: Do you represent the marketers?

Mr. HADLICK. Oil jobbers, yes, sir; National Oil Marketers Association.

Mr. SPRINGER. That is the independent people who buy oil, as you have said, from the large companies?

Mr. HADLICK. Well, I would say that probably 90 percent of them buy from the large companies. We have a few in the Middle West who can still get a little supply from independent suppliers. Here in Northeast everyone has to buy from the big companies.

Mr. SPRINGER. Earlier here this morning, in the first part of your testimony, you went into the question of profits of many of these companies in which you set up, for instance, in one that I have here, in 1940 their profits were 33, and 1948 or 1950 they were 144. That is one way of setting it up, but I always thought you set up what your earnings were against what your investment was. You might have earned $200 million, but if their expansion of their industry was sufficient to justify the kind of an earning they made, there would be nothing wrong in earning that much money, would there?

Mr. HADLICK. Mr. Springer, I would agree with you that what I gave was only the surface. I don't have the staff to do the work. That should be worked out, I would say, completely on investment and sales. I gave one example. I happened to find it quickly. The Socony-Vacuum tripled their sales but quadrupled their profits. Actually, they probably plowed a great deal of this consumer profit that they made back into their plant facilities. Undoubtedly they have. They have also been the recipients of many certificates of rapid amortization of new plants and facilities.

Mr. SPRINGER. I did want to be sure we were not misled by this record, because this record is being made, and I think there are probably a lot of people who will read it and come to certain conclusions. I did not want anyone to come to a conclusion without actually having all the facts in the record with reference to the size of the company, their earnings over a period of time, what their depreciation was. And also I think you do it on the earnings based upon what your accrual is, don't you, over a period of years? That is, your profit is expended in value. Isn't that a consideration to be taken?

You pay taxes on that accrual.

Mr. HADLICK. In the integrated companies, you have a little different situation. A barrel of crude comes out of the ground, 27½ percent of that is your depreciation. That is free. That doesn't make any difference whether you figure it in barrels or dollars. If the crude is a dollar a barrel, 27½ cents belongs to you for depreciation. If it is $3 a barrel, it is 3 times 27½ cents. The companies actually, I believe you will find, keep two sets of books. I do not mean anything illegal about it, but they keep one set for tax purposes and one set for their stockholders' purposes, because that depreciation works into the tax, but it does not work into their other operating profits. Then they have another advantage.

If I had a gravel pit out here and sunk a shaft in it, I would have to capitalize that shaft. Whereas you can go out and drill all the wells in the world and all of that is written off as current expense, whether it is a duster or otherwise.

Mr. SPRINGER. That is the way you would charge it in ordinary business, is that it?

Mr. HADLICK. No; in an ordinary business, if you put a shaft to take sand and gravel out of the ground, they would have to capitalize the building of that shaft. That is not an expense.

Mr. SPRINGER. That is a capital investment.

Mr. HADLICK. That is right. What I am getting at is in these periods of lush profits, over and above those profits, they have been able to drill these wells and charge it to current expense. That is why we have all the motion-picture people out drilling for oil. It is the biggest tax racket in the world.

Mr. SPRINGER. Would you be in favor of cutting off the 27½ percent?

Mr. HADLICK. This is getting into a very technical question, Mr. Springer. I would favor this, going back and allowing them depreciation on the basis of the value of the property at March 1, 1913, or its cost since then. If you will read the statement I submitted for the record, a very tricky situation developed. First, in 1918, or up to 1918, Congress saw to it that that is what they followed. In 1918 somebody came up with the idea of discovery value. If I had a piece of land that I bought for a thousand dollars and I discovered oil on it, I was allowed, no one else can do this, you cannot do this if you run a farm, I was allowed then to declare its discovery value as of the date of the discovery. That was my value.

Well, of course that ran for 8 or 10 years and it was hopeless to get the agents of the Internal Revenue and the oil companies together on what was discovery value.

Who knew? What did it take for value? Then they said "Let's simplify it, let's take a percentage. It runs 33 percent." So they finally compromised on 27½ percent. That should be all wiped out. That should go back to a basis of just like you handle depreciation.

In other words, you are entitled to any capital investment depleted, you should be allowed by your Government not to pay tax on it. Depletion should be handled just like depreciation on a machine.

Mr. SPRINGER. Let me ask you this: How much actual drilling of oil do you think you would get if you went to your system? We will take the movie producers. How many movie producers would be willing to invest any money in this kind of deal, if you went back to what you call ordinary depreciation?

Mr. HADLICK. Well, Mr. Springer, if we abolished the abominable system of proration, you would only have to sink one-third the steel you are sinking into the ground to get the same production. What does a man do in Texas when he is cut back so many barrels? He goes over and drills another hole. The same hole he had there could take the same amount of oil out if they let him. We sunk during the war tons of steel we had no business sinking into the ground. Ask them what they do in Kuwiat, in Venezuela how they drill the wells.

Mr. SPRINGER. You still have not answered my question. That is how much money do you think they are going to start investing if you go back to your proposition, your idea of depreciation.

Do you think you are going to get the same development of oil that we have had up to the present time?

Mr. HADLICK. I don't know, but if we must place an incentive on the drilling for oil, we better do it and know what the cost of the bonus is going to be, and not just give a blank check to a bunch of oil producers.

Mr. SPRINGER. Do you think you would get your development of these overseas places, like Venezuela and Kuwiat, Saudi Arabia, with a depreciation that you have mentioned?

Mr. HADLICK. They don't pay any tax to that, they don't pay any tax on that. They went and drilled there without the 27½ percent and they will continue.

Mr. SPRINGER. But it could enter into it practically as a profitable operation, would it not?

Mr. HADLICK. They don't pay tax on those foreign profits.

Mr. SPRINGER. That is true, but actually you are not going to have anbody invest in it unless you have a sufficient incentive to do it.

Mr. HADLICK. They did not have a 27½-percent incentive.

Mr. SPRINGER. Well, in Venezuela they made a hundred percent there, didn't they?

The point I am coming back to here is this: What kind of a development of oil are you going to have if you take care of the incentive, or is the incentive wrong? I am asking for information. That is all I am asking for.

Mr. HADLICK. The only thing I can say is this: Except for the period 1919–23, just before California came in there, there was a shortage of oil in this country, prices went high.

Mr. SPRINGER. When was that?

Mr. HADLICK. I am talking merely from memory, because I was going to school down here at the time. It was right after the First World War, and the early 1920's, and along in the year 1922, or along there, California oil came in and became a threat to the midcontinent.

That is when the prices broke. This 27½ percent did not go in until 1926, and in 1926 the prices of oil had started to sag again. As a matter of fact, that is why the oil companies used 1926. They had fields coming in all the way from Kansas to the gulf, faster than they could take care of them. Gasoline prices broke, crude was sold under the market, and it lasted until we had proration.

Mr. SPRINGER. Some of your testimony, unless I recall the testimony wrong, and I will leave it to the record as you made it, does not seem to jibe with some that has been given here by the Defense Petroleum Administration, about 2 months ago, with reference to the development of oil in the case of a national emergency. I think the

testimony was given here, and I will stand corrected if the record isn't that, that in case we engaged in full-scale war and had to supply our allies, and I am not going to state what the figure was for the record, because they would not put it in, they told me privately what it was, but I was astounded at the shortage of oil that would turn up in the case of a national emergency and when we had to supply our allies. If I told you the number of barrels per day, I don't think you would believe it.

Mr. HADLICK. Yes, I would believe it. If you are going into a jet-engine war, you are really going to use up the product. But when World War II started, through this proration program, and I will leave this to Mr. Wolverton, I think he followed the figures, they made a great to-do about the fact that we had a great potential, when what we needed was oil above ground. Between 1935 and 1939 we drew down our stocks, some 120 million barrels, and we started the war with our tanks at minimum capacity and we said it was good, we had the reserve in the ground when we should have had it above ground. If you go into total war, God forbid, my boy is that age now, we probably wouldn't be driving cars around this country. I don't know what would happen. The oil to be consumed in a mechanized war of the future, I don't know what their figures are but I will take any figure they will guess at. It is tremendous. But at the same time we cannot always be on a war footing. The most we can look for is not our potential, but our true reserves. Those reserves, as I say, are 33 billion barrels. What we should do between now and if there is an M-day, is to see that no well is operated in a way as to waste gas. If we will do that, as I say, it doesn't make any difference if you use the gas to flush it out faster or slower, you will get the same amount of oil out of that well. Our biggest waste is burning of gas.

Mr. SPRINGER. I take it, then, you think that we have the reserves here to run this next war?

Mr. HADLICK. We certainly have 33 billion barrels of it.

Mr. SPRINGER. And you think that we are adequate to carry on a full-scale war with what we have?

Mr. HADLICK. I certainly do.

Mr. SPRINGER. Well, I certainly am going to respect your opinion on this.

Mr. HADLICK. My worry is not so much in a total war the lack of oil for the consuming public. My concern is the lack of the transport facilities to get it over and above what the military would take.

Mr. SPRINGER. You mean the transport facilities to take it abroad?

Mr. HADLICK. To take it even internally, around the country. I would worry more about the transport than I would about the production of oil. Thirty-three billion barrels is a lot of oil.

Mr. SPRINGER. Well, I wanted to point this out, that even your testimony, as full as it is, I think directly contradicts and I want to say that for the record, but I am willing to let your answer stand for the record, together with what the Defense Petroleum Administration testified to. But I do think it is a serious question because your testimony certainly challenges that of people who came here before us and made some rather serious statements about what the production of oil would be in case of an all-out war where we had to supply not only ourselves but our allies. That is a problem at the present time

over in Saudi Arabia. I think there was testimony before the Senate committee investigating the petroleum situation in the summer of 1950, in which the testimony was, I think, we would only be able to control those fields in that Near East area for about 2 weeks, at that time. So it threw us completely back on our own resources in that case.

Now, I think there was supplemental testimony, in order to get this record complete and honest, that there was a possibility, due to the Canadian field, that we might be able to supply all of our allies if we had to. But it would certainly take considerably more development, new ones, in order to do it. Is your thinking along this line that they should restrict the imports of oil?

Mr. HADLICK. Well, it is hard for me to give you a yes or no, because imports are restricted and controlled by the seven companies. They have control. It is really hypothetical, unless the Congress wants to step in and say you are not limiting them enough. They will limit them all right, to protect the profits structure.

Mr. SPRINGER. Who will limit them?

Mr. HADLICK. The seven major international companies.

Mr. SPRINGER. But is not the Government encouraging in order to conserve our national resources in case of an emergency, that we do import a sizable portion of the oil that is used?

Mr. HADLICK. If the arguments for the present system of proration are sound, then we should take off the tariff and let all the oil come in, and say, "Let's hold all of this oil for the war that is going to happen, and bring in as much as we can."

Mr. SPRINGER. I think it would be bad to kill off our local industry, would it not? We have to keep that going, including you and your people? Isn't that right? That is a part of our economy. But I am merely pointing out for the record that it is very serious; that is, the question of restricting the importation of oil in order to conserve our own resources, but at the same time trying to keep our own economy normal.

I think that is a perfectly reasonable position for either the Government to take or for the industry to take.

Mr. HADLICK. I think undoubtedly, Mr. Springer, the scrap over the question of imports resolves down more to a scrap between coal companies and residual fuel oils. My people do not import. They could not if they wanted to. The big companies would not sell to them if they went to them. There is a tremendous amount of heavy oil that comes in on the east coast which could theoretically be displaced by coal and would not hurt the producer in Texas whether they let it in or don't let it in. I mean, it is a hypothetical question on that heavy fuel oil.

Mr. SPRINGER. Here is something that came up in this morning's testimony by, I think, the gentlemen who testified for the National Bus Association, or the busses—that kind of transportation. It was about the comparison of prices in 1929 with the prices of 1953. I think he told us here that it was about a cent or a half-cent cheaper to ride on busses today than it was 1929. How would you compare the price of gasoline in 1929 with the price of gasoline in 1953?

Mr. HADLICK. I think he used the year 1934, did he not?

Mr. SPRINGER. He did in the first one, and the one I am talking about went back to 1929, because I asked him how his increases have been and he said, "I would like to go back to 1929."

Mr. HADLICK. Well, from 1926 on, we had from a dollar to a dollar and a quarter for crude oil, until it got down to a dime in 1932 and 1933. Gasoline, I don't suppose, ever sold for less than a dime at a filling station, because of the transportation. You have certain constant costs in gasoline distribution.

Mr. SPRINGER. What was the gasoline selling for in 1929?

Mr. HADLICK. I imagine about 14 or 15 cents at the filling station, and it was lower than that in 1933.

Mr. SPRINGER. In 1929.

Mr. DRESSLER. In New Jersey the average 5 years of 1930 to 1935, for the average 5 years gasoline sold for 16.4 cents.

Mr. SPRINGER. I know that. But I want to know what it sold for in 1929.

Mr. DRESSLER. That is New Jersey. In the early part of 1930 it went down to as low as 6.6 per gallon.

Mr. HADLICK. I think that 15 or 16 cents in 1929 is right.

Mr. DRESSLER. In the Camden area it went to 6.6 cents.

Mr. SPRINGER. I will go on to another question.

The CHAIRMAN. Before we bring too many witnesses in from the audience, I would suggest that the stenographer have the opportunity of at least getting the names of those who are testifying.

What is your title or position, Mr. Dressler?

Mr. DRESSLER. Executive secretary, New Jersey Gasoline Retailers Association.

Mr. SPRINGER. Have you had an opportunity to examine whether or not the profits had gone down in 1952 as compared to 1951?

Mr. HADLICK. They are relatively on the same basis. Some are a little down and some are a little up. But I would say if you added up those 12 companies I listed, they would be just about the same, and the same for the first quarter.

Mr. SPRINGER. I noticed in answer to question 10 which the chairman has submitted, that for the companies, the 30 companies, a study by the Chase National Bank showed that the net income of 1950 was $2,020 million as compared with $2,080 million in 1951. That is a decline, I think, because I figured it out, of about 4 percent.

Mr. HADLICK. Yes; but our fuel-oil market this winter was light because of the warmer weather. That accounted for some of that. They will make it up this year, all right.

Mr. SPRINGER. In the statement submitted with question No. 10, the chairman points out that the 46 listed companies reporting to the Securities and Exchange Commission had net earnings in the first quarter of $478 million compared with $489 million in the first quarter of 1952, which if continued through 1953, would show a decline of 12 percent in earnings.

Mr. HADLICK. Well, that only indicates that the market was soft this last winter on their main product going to market, the fuel oil.

Mr. SPRINGER. Do you think that a decline of 12 percent in earnings over a period of a year—that is, your net earnings, your earnings total you are going to disburse to your shareholders.

Mr. HADLICK. Not when they have increased it 400 percent in 10 years.

Mr. SPRINGER. They have increased their net earnings 400 percent?

Mr. HADLICK. Those figures I read this morning. As a matter of fact, Sinclair increased, from 1940 to 1948, 2,000 percent or better.

Mr. SPRINGER. What I am trying to find out from you is what the percent of earnings was in 1939 and your percent of earnings in 1953.

Mr. HADLICK. Earnings related against capital investment?

Mr. SPRINGER. Yes. That is the only way to state this thing. The mere fact that you have millions of dollars of increase does not mean very much unless you know what the value of the company is. But I put this into the record here to apparently show that earnings are declining and not increasing. I am not prejudging this. I just think the full record ought to be made in this case.

When the people come in here we will ask them what the earnings were. No one seems to be familiar with that question who testified so far.

Mr. HADLICK. You will have some of the companies here. I think it will be fair to ask them to compare the first 6 months of this year with the first 6 months of last year. I think 6 months is a better comparison than 3 months. If you run into a heavy use of fuel oils as you did in the winter of 1952 as against a light winter in 1953, you certainly bring down your earnings temporarily. But you get into a bigger gasoline consuming season and a higher price, and they go up.

Mr. SPRINGER. Now, there is just this one last question I would like to ask you, and I think all through your testimony you have hit this, and that is that there is no competition. Now, what is your suggestion for getting these companies to compete, on what you would term a true, competing situation?

Mr. HADLICK. No. 1, enforce the antitrust laws. No. 2, remove the instruments of the Federal Government that bring about control over production of crude oil.

Mr. SPRINGER. What is the latter? Will you explain and expand on that?

Mr. HADLICK. Yes. The latter consists of the Connally Act which prohibits the interstate transportation of petroleum produced in excess of State quotas, without which Texas could not operate its proration system. Secondly, the Interstate Oil Compact Commission approved by the Congress, and third——

Mr. SPRINGER. You would repeal that, would you?

Mr. HADLICK. Yes, definitely. I think the record has shown that they have violated the spirit of article 5 year after year. And third, discontinue the Bureau of Mines forecast. Here is a sample that just came in this morning, how the Bureau of Mines sets up the figures to set a pattern, and then they are checked by API, then the interstate compact checks them, then the Independent Petroleum Association, and then they have a meeting and that is the pattern.

Mr. SPRINGER. You are suggesting a remedy to fit your situation, but do you think there will be any evils that will follow as a result of the repeal of those acts, the Connally Act and the interstate oil and gas compact?

Mr. HADLICK. The big evil I think is that if you don't do something you are going to have someone come along in this country who will say, "Wait a minute; we are going to control this so we can protect

the consumer." How are you going to protect the consumer, how are you going to get the competition back here, unless you make it competitive for one State for producing oil, to produce, and compete with another State? I say I am against the phony kind of conservation.

Mr. SPRINGER. Under your interstate compacts, do you not have various allotments and so forth, in order to conserve gas and oil under that act?

Mr. HADLICK. The purpose of it, its stated purpose, is to prevent waste. If you talk with those fellows, they can give you more double-talk on what is waste. They say, "Waste is bringing it above ground and not having a market." Well, what is a market? "A market means price." What does it move at at a price? The old economist's example that you have 10 apples at a certain price, if you keep reducing the price you will sell them all. If you have a high price you will only sell so many of them. They have this thing so worked out that for 10 years, I believe the figures show, and we ought to get them up to date, those forecasts, in 8 out of 10 years forecast a supply picture that was actually below demand, so that it gave the impetus to the rises in the prices that took place immediately following the war, but because of price ceilings could not get going before 1946. But it all started after the Connally Act was made permanent. Maybe one solution is to take away the permanency of the Connally Act and put the suspension back in the hands of the Congress instead of having it in the hands of the President, who could not conceivably be apprised and know all about the operations of it, with his many other duties.

Mr. SPRINGER. Now let me ask you this: Did the Department of Justice undertake a prosecution of several of these companies under the antitrust laws? Was that not pending last year and has it not been for a couple of years?

Mr. HADLICK. On the international cartel?

Mr. SPRINGER. Yes.

Mr. HADLICK. Yes, they started a grand jury last September. It was in politics and out of politics, and finally this spring they decided to call off the grand jury and to make a civil suit out of it, which is all right. I mean, however you get a result. But it has only been delayed. They were served with the papers, and then it was moved. They made a motion to move it to New York, where the documents would be. They met in New York yesterday and the judge put off answer until September. So look for an answer on that 5 years from now. There are other antitrust suits pending, and there are several in California pending.

Mr. SPRINGER. Is it your considered opinion that as a result of what you call a uniform price where it moves up and down, that is a prima facie case of violation of the antitrust law?

Mr. HADLICK. No, not without further——

Mr. SPRINGER. Would you just add any further conditions to that that you feel would cause a violation of the antitrust law?

Mr. HADLICK. Well, I think that in an instance as we have had, as an example, it is sufficient justification for the Department of Justice to investigate. That is what I have asked them to do. And if these, because of the subpena powers, to use a grand jury to determine if there has been an interchange of telephone calls, messages, conferences, and meetings at the interstate compact. You know, they use

all of these meetings, the National Petroleum Council and all of these meetings, and have their little side meetings in the bar, in the dining room, and places like that. If a grand jury should find that there was collusion, then they should be prosecuted. You have some evidence if you are going to prosecute, if you are going to have a violation of the antitrust laws. A violation of the antitrust laws is two or more companies agreeing to raise a price. That is a violation of the antitrust laws, if it affects the interstate commerce.

Mr. SPRINGER. It is your position, then, that there should be an investigation?

Mr. HADLICK. That is right.

Mr. SPRINGER. You are not making a charge that there is a violation of the antitrust laws?

Mr. HADLICK. No, I have not charged a violation. I said it is evidence of collusion when it happens in a sloppy market as we had, that somebody had gotten together. Now, if only two of them had gotten together and agreed to raise the price, it is a violation of the antitrust laws. The Supreme Court has held that any price agreement, there is no rule of reason or anything in price, if you agree on a price, even to lower a price, you have violated the antitrust laws.

Mr. SPRINGER. These are the two ways, then, in summary, that you would seek in which to get competition: One, to enforce the antitrust laws which it is your belief at the present time are not being enforced or investigated, at least; is that right? And second, the repeal of these Federal laws which, in effect, you say, prorates the amount of gas and oil that can be produced in such a way as to restrict the amount available which in turn has raised the price.

Mr. HADLICK. That is right.

Mr. SPRINGER. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions, gentlemen?

Mr. THORNBERRY. Mr. Chairman.

The CHAIRMAN. Mr. Thornberry.

Mr. THORNBERRY. I was not here this morning, Mr. Hadlick, I am sorry. Will you tell me what your background is? I understood you represented the Oil Marketers Association. Are you a geologist?

Mr. HADLICK. No, Mr. Thornberry; I am a lawyer.

Mr. THORNBERRY. Have you been in the production of oil? I mean in the business itself, actually?

Mr. HADLICK. I will tell you my background. I graduated from law school in 1920, Georgetown. I am a member of the bar of the District of Columbia, the Supreme Court of the United States, a lot of minor courts, New York and Minnesota. I practiced law in Minnesota from 1924 to 1930. I represented oil jobbers at that time. From 1930 to the middle of 1933 I worked for the American Petroleum Institute. I was secretary of the division of marketing. Since 1933 I have been in Washington, except for 2 years I went to Minneapolis. I have represented oil marketers and other interests.

I am not a geologist. I have been to many hundreds and hundreds of oil conventions. I am like the rest of them around Washington. I have heard a lot about oil in those years of contact.

Mr. THORNBERRY. I was interested a little bit when you referred a minute ago to your ideas as to proration. I take it that you think that the State of Texas has approached its proration policies in the wrong manner.

Mr. HADLICK. Well, I think it has been a conservation of price, and that any true conservation of oil has been incidental and accidental.

Mr. THORNBERRY. Is it your opinion in your advocacy of the repeal of the Connally Act and of the laws establishing the Interstate Compact Commission that this Congress has a right to tell the people of Texas how they shall conserve oil and gas?

Mr. HADLICK. In my opening statement I said this committee or Congress could do nothing as to the State of Texas, particularly with proration. But I say this Congress does have the right and the power to withdraw support for that legislation, beyond the confines of the State. No, the power of the State of Texas I am not questioning.

Mr. THORNBERRY. I agree with your last statement that the power of the State of Texas should not be questioned.

Now let me ask you this: You talked a while ago about the east Texas oil fields being the only field having the right to be referred to as having bottom hole pressure. Do you mean to say there are no other fields that have bottom hole pressure?

Mr. HADLICK. Let me say I do not know any.

Mr. THORNBERRY. You indicated, so far as your testimony was concerned, that it was the only one. I am sure from what you have told the committee and from what you have told me, naturally you are familiar with what happened in the east Texas oilfields at the time when the price went down to 10 cents.

Mr. HADLICK. I went down there at that time.

Mr. THORNBERRY. And at that time would you say there was any reason for proration? Was there any reason for the Connally Act?

Mr. HADLICK. I referred, in my statement, I think, without criticism to the temporary approach to the problem. I think the Governor turned out the National Guard to close down the wells. Actually, there was waste going on, I don't deny that, and the production of crude oil which was thrown on top of the ground in earthen pits, I will agree, was not right, and the State has that right. I do think they could have, within the period of time, without any one carying at it, done a better job in the true conservation of that gas production down there.

You have flown over Texas. You can darn near read your newspaper from one of those low-flying planes from the many gas flares. It is wrong. The last few years they have done a good job on some of that.

Mr. THORNBERRY. Well, as far as the gas conservation is concerned, I will not go into it here. There is just a difference of opinion between the experts and you in your theory of conservation. Those who are experts in proration and conservation who run the railroad commission are high-type men who have devoted their lives to the problem. I expect when we have an opportunity to hear their side of the story, there will be another story here. I believe that is all, Mr. Chairman.

The CHAIRMAN. Any further questions, gentlemen?

Mr. Hadlick, we deeply appreciate your presence here today as a witness. With the background of experience that you have had of a practical character has certainly qualified you to express opinions with respect to this matter. I am inclined to think that before these hearings have been concluded, especially after the companies have had an opportunity to testify, that it will be very likely that it will be

necessary to recall you as a witness because I am of the opinion that with what you have said, that you have in effect issued a challenge. You have touched some of the most vital questions in this whole matter that this committee is concerned about.

I am anxious to hear what the companies will say in answer to what you have said. I want it to be understood that you will have the opportunity to be aware of what they say and to give this committee further assistance.

My mind goes back to 1933, I think it was, or 1934, when I was a member of a Cole investigating committee, especially appointed. We held hearings in Washington, Texas, and throughout the country. Our hearings constituted 8 volumes of 300, 400, or 500 pages per volume. The industry said that it was the best study that had ever been made of the petroleum industry. If the records of that committee would be examined today, you would find that the situation that exists today, and to which you have testified, was visualized by some members of the committee. I know of nothing that I did 20 years ago that I can look back to with greater satisfaction in this year of 1953, than some of the observations that I expressed, that led me to believe that it was more than what it was represented to be, namely, conservation. To me it seemed very plain that what seemed to be said and done on the basis of conservation was, in fact, price stabilization, price fixing, by a method more direct than would appear on the surface as a result of the recognition of the allowables in the several States, and making it a misdemeanor to transport in interstate commerce more petroleum than had been allowed for a particular well. I am still interested in the subject.

Through all these years I have never had my original question answered. I am beginning to be fearful that my time will be too short to get the answer that I think it should be. However, there is an old saying that hope springs eternal and if there is any truth in it I still have hope that the time will come when we will be able to understand how this highly competitive business always results in the same price to the consumer without any deviation.

I have in mind in my own State, and I have often made reference to it in hearings of a similar character, where we have circles to assist in traffic. Around those circles are the major oil companies, 4, 5, 6 of them. And what I have noticed is this: If company A increases the price, company B next to it on the circle, within a day or less, maybe minutes, posts its new price, the same as A, and before the day has finished the same price has been fixed all the way around that circle as if it had been a merry-go-round, passing the brass ring from one to the other. How that can happen without any understandings is beyond me. I am hopeful that either through the activity of this committee or elsewhere the day will come, when in the interest of the public, we will be able to understand price fixing of petroleum and gasoline to the consumer.

I certainly thank you for your presence. I thank you for the testimony you have given. It shows a tremendous amount of study on your part as well as a vast experience that you have had. You have come here with no other purpose than at the request of this committee, to give us the benefit of your study of the matter, and we appreciate it.

Mr. HADLICK. I thank you for very courteous attention from all

of you members of the committee. I apologized to the newspapermen for not having my statement prepared, but I worked on the statement late last night and early this morning. I couldn't even have it typed. So I only have the one copy that the reporter has. I stand to be called from you at any time, Mr. Chairman.

The CHAIRMAN. Mr. Dressler.

Mr. DRESSLER. I wonder if I might ask that I be put on as a witness at your next call. The hour is late and I have developed a considerable headache. I might say also that the witnesses preceding me have pulled much of the fire out of my firebox. I have a serious headache and if it would be possible for my time to be changed over to your next date, I would appreciate it.

The CHAIRMAN. Well, that presents a situation to us that is rather difficult for me to be as helpful as I would like to be. I do not wonder that you have a headache.

Mr. DRESSLER. Suppose I give you what I have. It will be extemporaneous anyway. I will try not to go over the same ground covered by Paul Hadlick. Then if I want more time, I suppose I can come back before this committee.

The CHAIRMAN. Yes, or we would give you the opportunity of making a full and complete statement. I realize, as you do, that time is late. We have been here a long time and the nervous strain, I could readily understand, might cause you to have a severe headache in awaiting your turn to testify on the matter in which you are so much interested. But whether we will have a further opportunity or not, I do not know. If I were you, I would take advantage of the present, sufficiently long to express on behalf of the New Jersey Gasoline Retailers Association your thought in this matter. As I realize, you will speak very much from a practical standpoint and you will be speaking what is in the mind of hundreds of gasoline retailers of the State of New Jersey.

STATEMENT OF JOHN DRESSLER, EXECUTIVE SECRETARY, NEW JERSEY GASOLINE RETAILERS ASSOCIATION AND ALLIED TRADES, INC., LINDEN, N. J.

Mr. DRESSLER. Mr. Chairman and members of the committee, I had a slight guide here and I was expecting to cover somewhat the ground covered by Mr. Hadlick. Of course, my experience is not as far as his. My knowledge of crude oil is only that from our level it seems our problem goes to crude oil.

I have prepared a small chart that I will submit to the committee later on, in writing, that indicates the continuity of upward price in crude oil since the enactment of the Connally Hot Oil Act and the Oil Compact Commission.

From our level, our greatest disease, because of trouble, seems to originate from the Connally Act. My concern is tremendous in this case, even more tremendous, I think, than Paul Hadlick's because he is talking about a species who have practically been eliminated—the wholesaler—and I am talking about a species who is on the way to being eliminated, the gasoline retailer.

The total monopoly from well to consumer is almost in effect. In the State of New Jersey you hear a dying gasp of the gasoline retailer

represented by myself, who is being destroyed by the inefficiency of the monopolies. A careful study of what is taking place in this market will indicate that the excessive profits at crude levels and in transportation, and I believe also in refining, are not carrying down to the market level where the last real free competition existed. It is my considered opinion that a little dose of free enterprise and free competition would go a long way toward curing the problems that we have.

I would like to add for the committee's benefit that I believe free competition must be protected, because my friends from the major oil companies will point to a series of activities on my part, to bring about State intervention in price wars. I do not believe price wars are sound. I also do not believe in a rigged economy, which we have in the oil industry, is sound.

There can be no greater contradiction than the present one of so-called free competition. Anyone at all slightly familiar with the law of supply and demand knows full well that the Phillips Oil Co., whom I believe posted the first higher price, were a little ridiculous when they offered to pay 30 to 35 cents per barrel more for crude at the time when crude could be purchased for a lower price.

Even the method of pricing crude seems a little ridiculous in a free economy. When we translate that price down to the consumer level, and I would guess that the average increase across the United States will cost the consumer probably $500 million a year, based on the 600-and-some-odd-million dollars collected by the Federal Government on the 1½-cent tax, when that can be passed on to the consumer in the kind of markets we have suffered along with, at retail level, we have had price war after price war, overconstruction of stations, we have had too much crude oil, we have had all of the elements existing for lower prices, if we were responding to the law of supply and demand.

But the integrated companies are for all intents and purposes, or according to all rules of good economics, are actually monopolies, and oligopolies—use the term you want. The effect on the public is that effect we have tried to avoid, monopolistic effect.

There is no way for a man to buy on the so-called open market. I am head of a small corporation that owns a multipump station. About 4 months ago, I sent a letter to each of the major marketing companies in New Jersey, and I said that as a result of testimony they gave before a gasoline study commission in New Jersey, which we were instrumental in having set up, that since they were anxious to have a free economy we have some 27 pumps, and we have tanks, and that we would like to handle their product, and would they please call on us.

I said further in the letter:

> I understand that one of the reasons they do not want to go into split accounts is because of a fear of substitution.

I therefore offered to let them put a lock on my supply tanks, and the driver would hold the key. Now, in any sensible free economy the seller ought to rush out and grab this new customer and love him. It took about 3 weeks of a little salesman sneaking in and asking our manager, "What was Dressler up to? What did Dressler want?" And then we were advised slowly, one company after another, they were sorry but they were amply represented on that road.

Two companies, American and Gulf, indicated a willingness to come in and on a split basis. By that I mean serve me in a free economy so that I as a retailer could take care of my customers. About 2 weeks ago we decided to take Gulf up on their promise, and for the past 2 or 3 weeks we haven't been able to get in touch with the proper Gulf official. So I am inclined to question a little bit whether they would like to come into our station.

Down at our level, I think that is pretty good proof of the tightness of the monopoly. They will not go into split accounts.

In the State of New Jersey which I know very well, the inefficiencies at our marketing level are so tremendous no one will ever recognize the cost of tax burden carried by the consumer because the law of supply and demand has been so completely abolished. I turned out a pamphlet which I made out to our Congressman here that shows that on the Admiral Wilson Boulevard in Camden County, in a distance not quite 2 miles long, the major oil companies have built so many gas stations that if they were equally spaced they would be 200 feet apart. And if the pumps were equally spaced for 2 miles long, there would be a pump every 59 feet. I don't need to tell you, there is the glaring evidence of the burden carried by the consumer public because of the ability of the major oil companies to impose their restrictive conditions on the retail level.

On side roads and byways, routes like 9, near the shore areas, it isn't efficient for a man to sell one brand of gasoline. There is a considerable amount of acceptance in the brand due to advertising. Sound economics would warrant a dealer at least in those areas handling 4 to 5 brands. He could have complete utilization of his property investment, and of his time investment. But because of an ironbound, unwritten law, we have, I believe, 2 or 3 split accounts in the entire State of New Jersey. It has led almost to a form of racketeering, in the bidding or the looking for accounts to take over stations.

A number of people who enter the retail industry in New Jersey, and drop their little bit of money and then go out, would be fantastic if we could ever get the records. I don't guess, I know that our industry, the petroleum industry, is in the tight grip of monopoly. It cannot be broken by appeals to the Department of Justice. Because of their powerful public-relations propaganda mills, and we face some of them in New Jersey, their powerful advertising departments, and their legal departments, they are able to suppress any efforts to secure justice through the Department of Justice.

There is a case pending against the Sun Oil Co. about 4 years. I believe the action was initiated 4 years ago. To the best of my knowledge it has not even reached the status of beginning the trial. I know in that case the Department of Justice has signed statements from dealers which definitely indicated Sun Oil Co. violated the antitrust laws.

And then, of course, in the final analysis, after the Department of Justice has labored hard and vigorously, and the major oil companies exhaust all of their stalling methods, they are found guilty of something and fined a few dollars and they raise the price of gasoline a half cent and take back everything they lost.

It is discouraging at my level to carry on this fight for free enterprise and the ability of a little man to be successful if he has the stuff with which to be successful. Certainly we cannot turn, as Paul Had-

lick suggests, to the Department of Justice because we have made a careful study of what happens. To show contradiction, we had a public hearing on a bill in New Jersey recently passed, after a terrific fight between the major oil companies and the dealers, waiting for the Governor's signature, and at the public hearing marketing counsel for Socony Vacuum said, "We should not have to pass this law; there are ample Federal laws that could take care of us if we are guilty of anything."

The act we seek is a pattern of the Robinson-Patman Act. The marketing counsel for Socony Vacuum made that statement only 60 days ago, and yet Socony Vacuum just won a case in the Supreme Court in which they said when the product comes to rest this litigant could not sue for damages because it was not longer in interstate commerce.

Now, when you get caught by a big company like Socony, with enough lawyers so they do not even know what they are saying, and their skill is so great, that in the courts they confuse us, and before the legislators, they confuse our legislators. I am certain that Socony's counsel knew that they were claiming they were immune to the anti-trust law in this particular instance or at least immune to the suit instituted by this affected party. Yet here they were in New Jersey saying don't pass this law; there is a Federal law that does the same job.

The only hope I see for us, for little business, and I might add for the consumer, is for this committee to dig into the major oil companies' records, so that you can determine once and for all whether they are financing the suppression of the different levels from profits taken from one level. If an integrated corporation is permitted to use the profits made from a protected level, such as they Connally Hot Oil Act does, and they can use that profit in the market where we are, how long do we stand up?

In the recent price rise we had a peculiar thing happen to us. On Broad Street in Newark we have also an Esso dealer and a Shell dealer. The Esso salesman suggested to the dealer that he raise the price the amount that the company raised him. Well, for which we were quite pleased. But at the Shell station the salesman said put that price back down. Who told you to put it up? The Shell dealer is a lease dealer—the thin veneer of independence they give us. He knew that the salesman could cancel his lease at the end of a year. What else could he do but put it down? What happens after that? We have a price war and our sweetheart major oil companies say, "It happened because he stayed down and he went up."

It is an old stall with them to create confusion at our level, and then they point to us—the victims, the frontline casualties in this economic struggle—and they say, "Look how competitive the oil industry is."

A good example of that is found in the way they like to say how they keep prices down. July 1938 the dealer tank wagon—that is, the price the dealer pays—was 8.1 per gallon, with a 4-cent State and Federal tax, and a dealer margin of 3.8, which made up a service-station price of 15.9 cents. In July of 1953 the dealer tank wagon was 15.9. Gentlemen, that is almost double. The State and Federal tax went up to 5 cents, which was a 20-percent increase, and the dealer

margin went up to about 5½ cents average in New Jersey, or a 45-percent increase, making a total price of 26.7 cents as a normal price.

I would like to say at this time that in the past 6 years, dealer margin in New Jersey has increased on the average about 0.2 of a cent. If Government had raised taxes, and you know that Government found itself with increased costs, the roads we ride over are more costly, the police to maintain those speed limits and make them safe are more costly, and certainly the road problem belongs to we motorists, so if Government had taken the same amount of increase that the major oil companies did, and if the dealer took the same percentage of increase, gasoline would be selling, regular gasoline, for 31.5 cents per gallon in the State of New Jersey, instead of the present 26.7. You will hear major oil companies' spokesmen stand up and tell what a beautiful job they did, but they did it with our sweat and tears, not theirs, and when you break it down to this, you will find that they took everything the traffic will bear. This does not include, incidentally, the terrific rental increases that most of the companies have put through on the lease dealer.

I would like to just touch here, and I am going to cut myself short then, on the adjusted earnings per share, a question raised before. First, in the Forbes magazine, June 15, 1953, there is this rather comprehensive article on the oil lineup. It is about Texaco, and the story is around Texaco. In this article it says:

> Over the last 2 decades, bigness has become de facto if not de jure, criminal. The big company now is a sitting duck for anyone with a political shotgun. The irony for the oil industry is that any refiner must be big to survive, since profits come not from refining but from production, back at the crude, again.

It goes on further to say:

> The crude ratio: Consequently, the big integrated majors never reach the ideal 1 to 1 balance between reproduction and refining capacity. With domestic reserves second only to those of Jersey Standard, Texaco Co.'s domestic production to refinery run ratio is substantially below that of only the California Standard among the billion-dollar majors. Texaco's 1952 average ratio was 57½ percent. Its 10-year average, 82.9 percent.

A further quote from the book:

> And it must provide refining facilities beyond its own capacity to produce crude since it must buy the independent's production or lay itself open to the charge of monopoly.

A careful study by Forbes again takes us back to the oil wells and the rigging that was done under the Connally Hot Oil Act, the rigging that was done under the compact commission, everyone sees it is back there.

In the chart, this chart is adjusted earnings per share. I don't profess to know accountancy, but I consulted with our C. P. A., and he tells me it is adjusted to the value of the share in the period picked, or 1943. In this chart, they show 1943 to 1952, adjusted earnings per share in 1943, $2.03; in 1952, $8.74.

Gulf Oil Co., 1943, $1.56; 1952, $6.19.

Standard of Indiana, 1943, $3.32; in 1952, $7.81.

Sun Oil Co., $1.82 in 1943; $6.01 in 1952.

And then in the underlining remarks, it says that the heavy crude production has quadrupled Texas and Gulf earnings in 10 years while Standard of Indiana, essentially a big refiner, has little more than doubled net. Sun which has a higher production to refinery ratio

than Indiana, shows a higher net increase over the 10-year span. Go where you will and look where you will. There is no question that the Connally Hot Oil Act has had the effect of creating a concentration of power and permitting the monopoly, vertical monopoly, if you will use that term, from the well to the consumer, and no one in marketing or in refining, dares to challenge the authority of the vertical monopolies.

Whether prices should be uniform or not should be tested through the ability of the dealer to submit several brands to the public for their acceptance, and the oil industry ought to stand out on its own feet as do so many other industries by soliciting the patronage of the dealer, and the dealer in turn making his offerings to the public. If to that extent we could bring back competition, I sincerely believe that gasoline would sell somewhere in the neighborhood of 19 to 20 cents a gallon, but certainly not at the high level it is at today.

There can be no question from an earnings standpoint, from an availability of supply, from a condition of supply of finished products, nothing justifies the increase imposed on the consumer at that time.

Mr. Chairman, I think that will about complete my remarks. I would like to place one other thing in the record. Speaking of the foreign oil, you know, of course that Arabian-American company which is one of your big outfits, is owned by New Jersey Standard, California Standard, Texaco, and Socony in a 30–30–30–10 ratio, so when we think of foreign oils, I shudder to think what is going to happen to competition if we lean on foreign imports to give us our competitive impetus. I am convinced that one very important thing ought to exist and that is a divorcement of one level from the other. I certainly do not believe that one step in our economy should be used to support a problem in the other step. The State of Connecticut is probably the outstanding—Hartford, Conn.—is the outstanding sore spot in the United States. It is probably worse than what Jersey was some time ago. It has been going on now for about 3 years. They have such depressed markets that the subsidies have ranged as high as 4 and 5, and, I believe, even 6 cents a gallon. I went up into that market last year, tried to work up some support for interstate groups, to cary on the fight somewhat the same as we are doing in New Jersey.

I spoke to dealers. These were some of the defensive methods used in the area. First, let's look at the cause of the trouble. It was the big Safeway station who was selling unbranded gasoline. He buys most of his product from American Oil and from the Cities Service Co., major oil companies. They come down to our level to create a price war that stretches up into Mr. Heselton's territory, and it has created a chaotic market in Springfield, Mass. Did we let free enterprise run? Sun Oil Co. took over, if the dealer was willing, an independent dealer leased his station to the company with a 30-day cancellation clause, and then the company guaranteed him a salary. The catch in this, of course, is that when you got a salary, the company then, through you, ran your station. Of course, it was generous of the company to give the man a salary. That company, and others, will be down here to tell you that they like free competition. The dealer who insisted on being a free agent did not buy in a free market. He either subscribed to the conditions laid down by his company, or he had to fail. And proof of the fact that they like that condition is the simple bill that we put in in New Jersey that recently passed both

houses, and it is waiting for the governor's signature. Essentially the bill says that the company must treat all their dealers alike. They cannot discriminate between dealers. It is amazing how all of the counsel and all of the major companies objected to it. They want to be allowed to use the weapon they used in New Jersey.

We drove them out of the State of New Jersey by what we call bottom selling. But they have used it in—well, they are using it in Springfield, Mass., I believe, right now. I know they are using it in Hartford, Conn. It is a silly, crazy subsidy system. The district manager says you are at 241 Fifth Street, and I am at 249, and they draw a line between us. It is the same gas. But that is where the company draws the line. On this side of the line I get a subsidy and on the other side I dont. We had a thorough investigation. I would like to make that a part of the record here, incidentally, by Senator Dumont, who was chairman of that committee, in which they found that existed, from Tunley Avenue in Hudson County to Englewood, a distance of maybe 3 or 4 miles, the difference in buying price because of subsidy was 2 cents a gallon.

Now, they held the same tank wagon, but the dealer in Hudson County was declared in a distress area, whatever that is, and given another 2 cents. Now when a customer in Englewood, and somehow the majors forgot to tell the customers that this condition existed, a man in the car in Englewood drove down to Hudson County and bought gaoline 2 cents per gallon cheaper, when he did that then he thought his local dealer was really taking him for a ride. That is pricing method, promotion of price wars, which I directly charge them with, because I think they are intent on letting us be independent businessmen but with a strong string in their hand.

I think they are trying to move into finally eliminating us. I wonder sometimes whether, if in the production field we do really have 50 percent independence. I would love to have this committee determine first what they mean by "independence" because they are going to come before you and say, "Dressler does not know what he is talking about." Esso will tell you they only operate one service station in New Jersey. And if you accept that, it looks that way.

A salesman called up a lease dealer who happens to be in the room right now, and said, "Look, you fellows that keep fighting Esso, if you don't like what the company is doing, why don't you get out of the station?" That was as of yesterday morning. I say that is actually a company control. Fortunately, the individual in that station will be pushed around by no one. But some day, if we lose our fight, and our association disintegrates, that dealer will be canceled out. There is no question about it.

So when they speak of control, company-owned, we ought to develop the meaning of ownership, and then find out whether at the well they really are independent. I cannot see for the life of me how major oil companies would let 50 percent of that juicy profit go to somebody called private. It does not seem possible.

Mr. Chairman, I have closed my statement now with the appeal that this be a thorough investigation. I don't know whether we ought to eliminate the Connally Hot Oil Act. But if the act is necessary, it ought to come under Government supervision. And anyone participating in that level of operation should be specifically forbidden from

participating in any other level of the petroleum industry, recognizing levels as being production, transportation, refining, and marketing. And if the Connally Hot Oil Act is necessary, and I am not prepared to go into that deep enough, then those engaged in it ought to be under more direct supervision by Government and certainly not allowed to participate in the other three levels of petroleum marketing.

I believe that above covers all I have to say now, Mr. Chairman.

The CHAIRMAN. Any questions, gentlemen?

Mr. HESELTON. Mr. Chairman.

The CHAIRMAN. Mr. Heselton.

Mr. HESELTON. Mr. Dressler, I want to compliment you on what I believe is an extremely important contribution that you have made to these hearings. Too frequently we have simply heard the story from the companies themselves and possibly some associations, but not from a person like yourself who is obviously thoroughly familiar with working conditions.

I do not know what this committee can do. I think it is too early to prejudge. But it certainly seems to me it is up to the companies to put up a pretty good case when they come in here in terms of what Mr. Hadlick and you presented to us this afternoon.

If they have any reasons that they can offer as to why they should stay in the retail business, I think it is just about time that they come up with those reasons and document it in a fashion so that both you and we can understand it. I individually want to thank you for taking the trouble to come down here today.

The CHAIRMAN. Any other questions?

Mr. Dressler, I wish to add to what Mr. Heselton has said my own appreciation on behalf of the committee at your willingness to come before us today and testify. I realize it has taken a great deal of courage on your part to come and testify as you have, in which you have revealed to the committee those conditions that you are faced with and others like you are faced with, day in and day out. You have spoken from the standpoint of experience. You have given us the benefit of your long experience. We appreciate the information that you have brought to us. It will be very helpful to us as we make our study of this whole situation and in determining what is right and what is wrong about it, what the public interest requires.

You may feel that you have made your contribution to the work of this committee. We are greatly appreciative to you for having inconvenienced yourself to come here today and give us the benefit of your testimony. We thank you.

Mr. HESELTON. May I have one further question for the record?

The CHAIRMAN. Yes.

Mr. HESELTON. How long have you been in the retail business?

Mr. DRESSLER. Since 1931.

The CHAIRMAN. Mr. Bush?

Mr. BUSH. Mr. Chairman, I want to join with my colleagues in commending Mr. Dressler for the practical knowledge that he has of this situation.

I agree with my colleague that you have given us information that will certainly be very, very helpful. From a competitive standpoint it certainly looks and sounds, after listening to your testimony, as if there is something wrong with this retail setup. I am very happy I

was here as you testified. That headache that you had must have done you a lot of good.

Mr. DRESSLER. Mr. Chairman, I appreciate this committee's feeling, and sincerely, without a headache you could not shut me off that quick. I think that somebody must have told you that the only thing that would stop me from talking was a severe headache. But I would like to add this to the committee, and it is sincere:

I am a paid executive secretary of the association, and I want to be useful to this committee. I have a staff back home, not a big one, and anything we can do in the way of seeking out facts, we wish to do. I want to say this for my friends in the major oil companies: I don't think they have horns. I think they are victims of a system created that they are part of. If I were sharing in the rewards as they have, maybe I would feel the same as they do. I bring that out because there is one in the room, and there are many that I like. Their system is vicious. I want to be part of destroying that system that is preventing little-business men from existing.

But I want to draw the line on personalities, and I want to offer to this committee at any time, at any place, to appear on the retailers' point of view. Others, I don't know too much about. I don't know too much about crude and so forth. So I consider that a privilege, and I am sure glad that you think I did all right. Next time I will not have a headache. All I can say is bring your beds along. Thank you very much.

The CHAIRMAN. Mr. Schenck.

Mr. SCHENCK. Mr. Chairman, the Southwestern Ohio Gasoline Dealers Association executive secretary asked me or called me to see whether or not he could testify. I told him I thought we would see that he did testify. He called again to say that because of personal situations he could not come down, but he has prepared a written statement for the Gasoline Dealers Association of Southwestern Ohio, which he would like to have in the record. So I am presenting that to you, Mr. Chairman, in the hope that you can have it in the record.

The CHAIRMAN. It will be made a part of the record as if delivered by him.

(Mr. Nies' prepared statement follows:)

STATEMENT OF EDWARD C. NIES, SECRETARY OF SOUTHWESTERN OHIO GASOLINE DEALERS ASSOCIATION, RE RECENT GASOLINE PRICE INCREASES

My name is Edward C. Nies, and I am secretary of the Southwestern Ohio Gasoline Dealers Association, with headquarters in Dayton, Ohio. Our membership is made up of service-station operators (gasoline retailers). Some of our members own their own stations, while a majority lease their stations from major oil company suppliers, but all of our members have this in common—they are small-business men who seek to own and operate their own businesses under the American system of free enterprise. There are more than 200,000 of such individual operators in the Nation, and we sell nearly 90 percent of all the gasoline which is purchased for private vehicular use.

But in Ohio, at least, we individual retailers have very little to say and very little influence on the prices at which gasoline is sold and no influence at all on the wholesale prices at which we purchase such product. The major oil company exercising market leadership in Ohio operates enough retail gasoline stations in key locations to establish its retail price leadership and this company has maintained wholesale price leadership in conjunction therewith for many years. Thus when the public gets squeezed by price increases all too often the retailers get squeezed too. The recent gasoline price increases in Ohio are a case in point.

Advances in the wholesale and retail price of gasoline announced by Standard

Oil Co. (Ohio) Friday, June 19, set the price pattern for the State as usual. It has been a long time now since any major oil company operating in Ohio deviated for many days from Standard Oil's wholesale or retail prices, and as this statement is made most companies have gotten into line with Standard's increases as in the past.

Standard's wholesale price increase was 1 cent a gallon on regular-grade gasoline and 1.3 cents on premium. Its retail price increase was 1 cent on regular and 1.5 cents on premium. Thus retailers (service-station operators) receive no increased margin and no part of the price increase on regular-grade gasoline. Whether the 0.2-cent increase in margin for premium-grade gasoline will be sufficient to offset the dealer's loss of sales on such gasoline due to the relatively higher prices remains to be seen. But this much is certain, that retailers must now do a larger dollar volume to make the same gross profit and retailers will require some additional capital to stock gasoline at these higher prices and will receive little or no return on such additional capital investment.

The economic effect of these increases will be to accelerate the present trend against the independent service-station operator and to increase the rate of business failures and the number of idle and unrentable stations.

Our surveys in the Dayton area reveal that approximately 50 percent of all service-station operators checked now wish to get out of the business and stay out. Only inability to liquidate their merchandise and equipment for enough to pay their debts or a fair price keeps these men in the business for the time being. It is a safe prediction that 25 percent of all service-station operators now engaged in that business in and around Dayton, Ohio, will have gotten out of business by December 31 of this year due to insufficient operating margins on gasoline.

Ohio service-station operators now receive only 4.6 cents gross margin on regular-grade gasoline, more than 1 cent of which is retained in rent charges if the operator is a lessee of his supplying company. This compares with national average margins which are 5.1 cents per gallon on regular-grade gasoline and margins in contiguous areas, such as Michigan, of 6 cents per gallon or more on regular-grade gasoline. It is little wonder that Ohio's gasoline dealers are failing in business on a 4.6-cents margin with Michigan dealers requiring 6 cents margin to break even under their below-cost sales law.

Most major companies operating in Ohio are so accustomed to the price leadership of a single competitor, and margins under that company's price policies have been so low so long, that there is little hope for a change in time to save the thousands of dealers who are now in dire financial circumstances. It is for these reasons that we hope and believe your committee of the United States House of Representatives will be able through inquiry to consider our problem and offer some help in securing an answer thereto.

The CHAIRMAN. I also have for the record a statement from the National Oil Jobbers Council, the Northwest Oil Co., American Trucking Associations, Inc., New Jersey Gasoline Retailers Association, and the Cooperative League.

These statements and others that have been handed to me will be made a part of the record.

(The prepared statements follow:)

NATIONAL OIL JOBBERS COUNCIL,
Washington, D. C., June 29, 1953.

Hon. CHARLES A. WOLVERTON,
Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D. C.

DEAR MR. CHAIRMAN: This is to acknowledge your invitation of June 27, as well as to confirm my conversation of this date with Mr. Andrew Stevenson, member of your staff, relative to my appearance before your committee on July 1 at 10 a. m.

I am in the process of assimilating information from all parts of the United States with reference to recent increases in the prices of petroleum products and the effect of such increases on jobber distributors and the economy of our country as a whole. Until this information is at hand, I do not feel that I am qualified or prepared to make concrete statements, conclusions, or recommendations to your committee on this phase of your invitation. I have, therefore, requested, and Mr. Stevenson approved, postponement of my appearance before your committee until some later date. I have advised Mr. Stevenson that I will keep in contact with him with reference to this matter.

I appreciate your invitation to appear on behalf of the National Oil Jobbers Council and will attempt to be of such assistance as I can render in the inquiries and investigations which your committee is initiating.

I should like to point out, however, that from the best information available, the independent jobbers of this country did not initiate any of these price increases and, from what I can ascertain at the moment, there are relatively few independent jobbers who have received any portion of said increases by way of increase in their unit margin of profit.

Sincerely yours,

OTIS H. ELLIS, *General Counsel.*

NORTHWEST OIL CO.,
Portland 3, Oreg., June 29, 1953.

MR. WOLVERTON,
Chairman, House Commerce Committee, House of Representatives,
Washington, D. C.

DEAR SIR: I see by the papers your committee is starting in the near future to find out why the major oil companies are raising their prices. I suggest that you take in the Pacific coast in your investigation.

About a year ago last February or March in API meeting that was held in Los Angeles, Calif., at that time, it was decided and passed out to the independents that we in the future were to be classed as surplus buyers and that the majors would pass their surplusses amongst themselves and if there was no surplus we the independents were to get none, and since that date we have received just that none.

Our supplier, the Hancock Oil Co., Long Beach, Calif., an independent, right after this meeting was cut short on their supplies and had to cut off lots of accounts, we had been purchasing in tanker lots from them and were getting 1 million gallons per month, that was cut in half in May 1952, we were also purchasing over 600,000 gallons per month from a distributor of General Petroleum Co., all told we were marketing over 1½ million gallons per month, the gasoline we were getting through the General Petroleum Co. distributor was all cut off, Hancock cut us more until now we get only 375,000 per month.

I have tried to buy gasoline from all except one company on this coast. They all tell me the same story, that they are short of products but if we have some outlets that we cannot supply turn them over to them and they will supply them.

Every major company on the coast will take any business they can get providing it is marketed under their brand name and are selling to lots of unbranded accounts where they can deliver full loads but no gasoline for independents.

The following companies have been treated the same as this company, Time Oil Co., Clipper Oil Co., Time Gas & Oil Co., these named companies operate both in Washington and Oregon.

We have not been able to buy any products from any of them for over a year now; the only way we can get any products is out of Texas and now the price increase there stops that.

The conservation committee writes the ticket and all members are only allowed to produce enough to keep the market tight. We have been in business here for 20 years and had no trouble getting products until this conservation was put into operation. Our business from a profitable operation has operated at a loss for over 1 year.

The major companies back in 1942 and 1943 were setting up what is known as loans and exchanges (one company was short of a product and borrowed from another). These so-called loans and exchange could be paid back or paid off at the end of each month, where the borrowing company did not want to pay it back but decided to keep the products the price was 4 cents per gallon for regular grade gasoline. The price is now I am told 13.1, an increase of 9 cents per gallon, some raise, I think higher percentage than any other product I know of.

Too many things to put into this letter but I think you will find plenty of collusion if it is investigated, and ask that you do not forget the Pacific coast in your investigation.

Yours respectfully,

NORTHWEST OIL CO.
By H. F. MORRISON.

STATEMENT OF JOHN V. LAWRENCE, MANAGING DIRECTOR, AMERICAN TRUCKING ASSOCIATIONS, INC.

This statement is submitted following Chairman Wolverton's request that we present the views of the trucking industry on the recent increases in the retail price of gasoline, distillate oils, and crude oil. It was impossible to appear before the committee on the date scheduled and we appreciate the chairman's granting permission to submit a written statement.

The American Trucking Associations, Inc., is the national trade association of the trucking industry, representing all types of carriers, both for hire and private, and having affiliated associations in all 48 States and the District of Columbia. Our offices are located at 1424 16th Street NW., Washington, D. C.

America's trucking industry has a vital interest in the recent increases in the price of gasoline and other petroleum products. The industry is a large consumer of these products and any increase in their prices represents a substantial increase in the costs of truck operation.

However, the trucking industry is not in a position to say whether or not the present increases in the retail price of gasoline and other petroleum products are warranted or justified. If the petroleum industry is faced with increased costs of production and these costs cannot be absorbed, then there is no alternative to passing them on through increased prices. The for-hire segment of the trucking industry often finds itself faced with increases in its costs of operation which cannot be absorbed and which must be passed on through increased rates. The difficulty is that an important part of the trucking industry's position as a regulated industry means a time lag between the incurring of the increased costs and the relief afforded by increases in rates. Thus, although the costs ultimately will be passed on, there is a time during which they must be absorbed by the carriers.

The facts and circumstances underlying the recent price increases of petroleum products undoubtedly will be explored fully by this committee which then will be able to determine the justification of the price changes. However, in line with Chairman Wolverton's request, we would like to apprise the committee of the effect of increased fuel costs on the trucking industry.

In 1952 the trucking industry purchased more than 10.7 billion gallons of motor fuel. An increase of only 1 cent per gallon in the retail price would have meant an additional cost to truck owners of more than $107 million. It is estimated that in 1953 the industry will have purchased more than 11.2 billion gallons of fuel. This rate of consumption would mean added fuel costs of $112 million through an increase of 1 cent per gallon.

The immediate effect of increased fuel costs may best be illustrated by an analysis of the operations of the class I motor carriers of property. These are the interstate carriers operating under authority granted by the Interstate Commerce Commission. The 1952 operations of 5 of the largest carriers show an increase of 1 cent per gallon in the cost of motor fuel would add $203.40 per year to the cost of operating each of their intercity units. This would have the effect of reducing the net revenue of each unit by 8.7 percent.

The cost of motor fuel is an important item in the carriers' total expenditures. It is the third largest single expenditure, exceeded only by total labor costs and the cost of repairing and servicing their revenue equipment.

Any increase in the cost of fuel and other petroleum products is of serious concern to all elements of the trucking industry. Trucks today are transporting a constantly growing percentage of the total intercity freight traffic and virtually all of the local traffic. This means that practically all items moving in the Nation's commerce move all or part of the way by truck. Thus, increases in the cost of truck operation cannot help but mean increase in the cost of everything we buy.

NEW JERSEY GASOLINE RETAILERS ASSOCIATION
AND ALIED TRADES, INC.,
Linden, N. J., June 28, 1953.

Hon. CHARLES A. WOLVERTON,
Congressman, House of Representatives,
Washington, D. C.

MY DEAR CONGRESSMAN: Thank you very much for your answer to our telegram requesting an investigation into the recent series of gasoline price increases.

We want to do everything possible to aid in this investigation and at the first session, Wednesday, July 1, we hope to have several members of our executive committee present. We have also notified members of the Eastern States Gasoline Retailers Association, of which the writer is president, to attend.

We will look to you, sir, for guidance as to the scope of this investigation. We sincerely hope that this committee has the authority to investigate the oil industry from the well to the consumer, and that you will conduct such a hearing. We believe, also, that investigation will disclose that the oil industry, insofar as all natural laws of economics are concerned, is a tremendous monopoly and that by its actions, it is destroying small business and charging the consumer unreasonable prices for their products.

Knowing your reputation for fairness as a committee chairman, and also your reputation for conducting constructive hearings, we are satisfied that your conclusions will be fair and just to all concerned.

Thank you sincerely,

JOHN DRESSLER, *Executive Secretary.*

STATEMENT OF JERRY VOORHIS, EXECUTIVE DIRECTOR, COOPERATIVE LEAGUE OF THE USA, ON THE SUBJECT OF OIL PRICE INCREASES

Mr. Chairman and gentlemen of the committee, the cooperative league is concerned about the petroleum industry from three points of view: First a number of cooperatives—particularly farm supply cooperatives are engaged as true independents in the production, refining, and distribution of petroleum products. Second the cooperative league is concerned, by its very nature and purpose, for the welfare of all the people as consumers. And third, because we believe in and stand for American economic freedom, we are opposed to monopolistic controls in any industry, by whomsoever such control is exercised.

On June 15 one major oil company announced a 25 cents a barrel increase in the price of crude oil. Within 2 days practically all the rest of the major companies had fallen in line with this increase. And since the majors control close to 85 percent of all crude production there was of course nothing for the other companies to do but follow the majors' lead. Shortly thereafter there took place an increase in retail prices corresponding to approximately 1 cent a gallon of gasoline. The chairman of this committee, very properly it seems to me, immediately called into session this inquiry "to attempt to develop the facts and conditions with reference to the price increases."

Now I am no petroleum expert nor am I able to bring to the committee any "inside" information. But certain facts are so clearly apparent now, as in the past, that any reasonably intelligent person can see the broad outlines of what is taking place.

As nearly as can be determined the pattern of price increases that has taken place will not harm either the retail dealers or the independent refiners. The retailers should have on the average about the same number of cents margin per gallon of retailed products as before. And the refiners may even be in a slightly better position than they were before. Once the price of crude was raised the other increases along the line followed logically if not inevitably. Obviously the burden of these price increases will be borne by consumers.

The central question then is whether the increase in crude oil prices was or was not justified, leading as it has done to a heavier drain on the pocketbooks of consumers of petroleum products—industrial, agricultural, and domestic.

The best information we can assemble indicates that this question is subject to no easy or quick answer. The increase was defended by the major companies on the ground of increased drilling and production costs. And there can I think be little questioning of the fact that these costs are today considerably higher than was the case a couple of years ago. That is to say that new production is more expensive and companies developing new wells must pay out more to do so. Apparently the 25-cent increase will not much more than cover these increased costs.

But the price increase is across the board and it will mean considerably higher profits for oil companies on all producing wells which were developed at lower costs in years past. Whether this could have ben averaged out in some manner that would have eased the burden on consumers somewhat I cannot say. Certainly this would be easier for large companies and for companies well supplied with dependably producing wells than for small companies or those actively engaged in current drilling.

But on the petroleum industry as a whole—that is on what is probably already the most profitable single industry in the United States—there can be little doubt that a substantial additional Christmas present is being bestowed by the consumers of the country. The only such consumers of whom I have knowledge who will not be somewhat hurt by this are the patrons of the cooperative oil companies. For in their case if the price increases mean additional earning margins, for whatever reason, those margins will come back to the patrons in the form of patronage refunds.

Beyond these considerations, however, are others which are more fundamental. Responsible people in the oil business have stated that there was collusion in connection with these price increases. This should be no surprise, certainly. It seems perfectly obvious that there was collusion. One hears a great deal of talk about the law of supply and demand. Farmers in particular are being urged to entrust their economic welfare to the operations of this law.

But it does not work in oil.

How could it be at work when, as the Wall Street Journal points out, "This crude price rise comes when the supply is more than ample to meet current demand." And the distinguished chairman of this committee has added that these price increases "follow a long period of successive cutbacks in the amount of domestic production allowed." Furthermore those responsible, basically, for these increases must be in a position to know that they can prevent so great a flood of importation of oil produced abroad as to jeopardize the new price structure.

The law of supply and demand works backward in the oil business for the simple reason that the power of the major companies is great enough to not only repeal that economic law but turn it around and set it off in the opposite direction.

What the petroleum industry in the United States needs is some real competition. This it simply does not have today.

This committee is to be congratulated on its courageous attempt to inquire into this matter and I do not want to be discouraging. But the second and last fundamental point I want to make is that nobody has any accurate information about the petroleum industry in the United Sates except the major oil companies themselves. As long ago as May 8, 1944, when I had the honor to be a Member of the House of Representatives, I made a speech in the House to prove this very point. I said then, and it was not challenged, that Government agencies having to do with the oil business were almost completely dependent for their information on the oil companies themselves.

This, I am confident, is still true.

Behind its 27½-percent depletion allowance the oil business has created and is creating the only fabulous new fortunes that are being made today. (In the case of cooperatives, of course, what would be these fortunes are spread widely among hundreds of thousands of farmers and other consumers of oil products through the patronage refunds.) The major companies are in control of such ample capital that they are immune to failure.

So powerful are they politically that, while practically every other phase of our economic life has at one time or another within the past 20 years been subject to searching inquiry, no such inquiry has been conducted with respect to the petroleum industry. Mere mention by the United States Department of Justice of the fact that seven oil companies control all the production and distribution of petroleum products in the entire world outside the United States and the Soviet empire brought cries of outrage from representatives of those companies, but no denial of the basic facts presented by the Department of Justice.

The most conservative note therefore that I could strike in concluding this testimony is that there is a great need on the part of the United States of America for more genuine competition and less monopolistic control in the oil industry and that wherever such competition on the part of truly independent companies exists it should be encouraged in every proper manner. I expect a considerable amount of data can and will be presented to explain the recent price increases. It would not surprise me if it were found that there was in these increases an element of enlightened self-interest on the part of the majors toward some of the smaller companies. The real problem and the real danger lies beyond and beneath these immediate events in the question as to what is going to happen to the whole idea of economic freedom in the United States.

The CHAIRMAN. With respect to the continuation of these hearings, we have gotten further along today than we had anticipated. It is very fortunate that we have for the reason that tomorrow is a day that will be filled with action on the floor of the House that would keep the committee from being present and giving the attention that they would like to this matter. The House goes into session tomorrow, I understand, at 10 o'clock, and will be in session all day. So there would not have been any opportunity for us to have heard witnesses tomorrow.

However, by persevering this afternoon until this late hour, we have been able to cover the entire list of witnesses that we had arranged for today and tomorrow. So the hearings today will recess until Monday next, at which time we expect to have representatives of the companies present and perhaps also some representatives from the departments of government. Certainly we expect some representatives from the companies to be present.

Is there anything further, gentlemen?

If not, the committee will adourn until Monday morning next, at 10 o'clock.

(Whereupon, at 4:45 p. m., the committee was recessed, to reconvene at 10 a. m. Monday, July 6, 1953.)

PETROLEUM STUDY
(Gasoline and Oil Price Increases)

MONDAY, JULY 6, 1953

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to recess, in room 1334 of the House Office Building, Hon. Charles A. Wolverton (chairman of the committee) presiding.

The CHAIRMAN. The committee will come to order.

Last Wednesday I outlined at some length the purpose of the hearings we are now conducting into the recent increases in the price of crude oil, gasoline, and heating and fuel oils. Today we have invited representatives from the four companies which I understand initiated the respective increases to come here and give us the facts and reasons surrounding their actions.

In our invitations to appear we requested Phillips Petroleum to cover the crude oil price increase of this past June; Standard Oil Co. of California to cover its earlier products increase; Socony-Vacuum Oil Co. to cover the increase in products of June 9; and Standard Oil Co. of New Jersey to cover the product increase which followed the crude oil increase.

The different companies expressed a complete readiness to meet with us and each designated an appropriate spokesman for their respective companies. Last Wednesday, however, I also raised certain specific questions which it seemed that a preliminary study of various press utterances, articles, and comments on the situation showed needed some answer before our hearings should be concluded. Many of these questions are broader in all of their ramifications than perhaps was the original request as to the witnesses appearing today, at least as to those on the products increase.

Since all companies today appearing as sellers of products are also producers and buyers of crude oil, I assume that the persons appearing today may be able to throw some light, however, on the series of questions which were asked in addition to treating of the separate products price increases. We will start first with Phillips Petroleum, which initiated the crude oil increase. Then we will take the other companies in the order in which the product price increases occurred.

Representing the Phillips Petroleum Co. we have as the first witness Mr. W. W. Keeler, vice president of that company.

Mr. Keeler, you may proceed.

STATEMENT OF W. W. KEELER, VICE PRESIDENT OF PHILLIPS PETROLEUM CO., BARTLESVILLE, OKLA.

Mr. KEELER. Chairman Wolverton and members of the Committee on Interstate and Foreign Commerce, I have a prepared statement that I would like to read, with your permission.

The CHAIRMAN. Very well, you may proceed.

Mr. KEELER. I am W. W. Keeler, vice president and director of Phillips Petroleum Co. I reside in Bartlesville, Okla. I am here in response to a telegram from you to appear and explain the reasons and circumstances prompting the action of Phillips Petroleum Co. with respect to the recent increase in the price of crude oil.

As you know, Mr. Chairman, your invitation was extended to Mr. Adams, the chairman of our board, but inasmuch as he is now convalescing from an atack of pneumonia, he was unable to be here, and he has asked that I send his regrets on his failure to be able to make this meeting.

Phillips Petroleum Co., as you know, on June 15, 1953, posted an increase of 25 cents per barrel in the price of crude oil in the areas in which it posts prices in Texas, Oklahoma, Kansas, New Mexico, and Colorado. Later, when competitors increased the posting 30 cents per barrel in certain fields in Texas, Phillips raised its prices an additional 5 cents per barrel for those fields. In the opinion of the management of Phillips Petroleum Co. such increases were well warranted and long overdue.

We thought an increase was justified as far back as September 1948 and, accordingly, posted an increase of 35 cents per barrel throughout the area in which we purchased crude oil. However, most of our competitors failed to meet the increase and consequently we reduced our prices to competitive levels 2½ months later in order to eliminate the disparity between our crude costs and those of our competitors.

I know of no responsible dissent to the proposition that the domestic oil industry must be maintained on a sound and healthy basis to the end that this Nation may be self-sufficient in times of national emergency when foreign supplies may be cut off.

The Honorable Douglas McKay, Secretary of the Interior, recently said in testimony before the Ways and Means Committee of the House of Representatives on hearings on the Simpson bill, repeated by him in an address before National Petroleum Council May 28, 1953:

> I recognize the importance of domestic petroleum production to national defense and the contribution it makes to the national economy and that of the oil-producing States. I also realize that the petroleum industry is unique in that discovery and development of new reserves constitute a major and vital activity of the industry. Oil and gas produced must be replaced by a vigorous and progressive search for new reserves or the Nation's ability to produce petroleum would rapidly deteriorate.
>
> I recognize how important it is that the strength of the domestic industry be maintained. To maintain this strength requires an economic climate that promotes the competition, progress, and technological development that has brought the industry to its present high degree of capability.

I do not say that my company was required to increase the price it would pay in order to obtain its immediate requirements of oil. But the oil industry does not and cannot operate on a day-to-day basis. It

would be disastrous to the Nation if it did. We must prepare today for our crude supplies 5, 10, and 15 years hence.

It takes long periods to carry on geological and geophysical exploration work to first locate new areas which have possibilities of production. Acreage must be leased from numerous and scattered owners. Then wildcat wells must be drilled. If production is encountered it has been our experience that as long as 5 years are required before the field is fully developed and necessary pipelines are constructed to take the production. Then if refineries are to be built, another 2 years may be required. Most of the crude we are using today comes from fields discovered 5 to 15 years ago.

In order to promote the necessary exploration and drilling to provide additional reserves and assure the continued production of existing wells to exhaustion, the price of crude must be maintained at a level sufficient to provide the necessary incentive.

Therefore, in speaking of supply and demand of crude oil and its products, we should not be confined to the day-to-day situation, but must be concerned with the future. It was in this attitude that Phillips Petroleum Co. increased the price it would pay for crude oil.

The demand for petroleum products is constantly increasing and here is every reason to believe that the oil industry will be called upon to meet normal demand at an increased rate of 3 to 4 percent per annum for this indefinite future. The Paley report forecasts that by 1975 the demand for crude oil will have doubled.

The adequacy of the supply of crude reserves for the future is dependent upon increased exploration and the drilling of wells at an ever-increasing rate. Such a rate of exploration and drilling will not be accomplished unless the productive branch of the industry has the expectation of prices sufficient to attract risk capital. The rate of exploration and drilling at present and in the immediate past has not been sufficient. Despite a drilling rate of record proportions, the net increase in the crude oil reserves during 1952 was the lowest of any of the past 8 years. While crude reserves at the end of 1952, totaling approximately 27 billion barrels, were the highest of record, still in proportion to demand they were less than each of the 4 preceding years. In fact there has been a steady decline during the past 4 years in the ratio of crude reserves to demand.

The oil industry has not had a general increase in the price of crude oil since December 1947, despite the fact that in the interim it has incurred substantial increases in the costs of all of the things which affect its business. Since 1947 labor costs have increased more than 40 percent; iron and steel and the products made from them, which constitute about 50 percent of oil industry costs, have increased approximately 40 percent. Costs of acquiring and holding leases needed for drilling have also increased materially, as have the costs of carrying on the exploratory work of determining the most likely places to drill. More and more wells have been drilled to greater depths, resulting in additional drilling costs as well as increased costs of equipping the wells to produce. It has been conservatively estimated that, considering all of these factors, the total cost of discovering, developing, and producing oil has increased 50 percent since December 1947. I know of no other basic commodity whose price has not increased during that 5½-year period.

A recent analysis of my company's drilling costs in west Texas and New Mexico during the years 1951 and 1952 indicates how rapidly the cost per foot increases with depth in addition to the increased cost of labor and material. To increase the depth of a well from 3,000 to 4,000 feet, the additional 1,000 feet cost $11 per foot. To increase the depth from 7,000 to 8,000 feet, the additional 1,000 feet cost $20 per foot, and to increase the depth from 12,000 to 13,000 feet, the additional 1,000 feet cost $72 per foot. A 13,000-foot well, although 2½ times as deep costs over 6 times as much as a 5,000-foot well. These figures do not include wildcat wells, which are considerably more expensive. Many wells are being drilled to an even greater depth than 13,000 feet at the present time, so that the industry can expect a continued increase in the cost of drilling in the immediate future.

The industry is also confronted with greater hazards in its drilling operations. In 1948, approximately 32 percent of all wells drilled in the United States were dry. This percentage of dry holes increased each year until, in 1952, 40 percent of all wells drilled were dry, an increase of 25 percent in the 5-year period.

The hazards are even greater in the case of exploratory or wildcat drilling where 82 percent of the wells drilled are dry and only 1 well out of 1,000 finds a major oil field with enough reserves to supply at least 1 week's requirements of the United States. This is to be found in the Bulletin of the American Association of Petroleum Geologists, January 1951.

It is becoming increasingly difficult to find reserves of crude oil. As an indication of this fact, figures have been compiled to show the results of exploratory drilling to find new reserves in the United States. To eliminate year-to-year fluctuations, 5-year moving averages have been computed for the past 15-year period and these figures show that for the 5-year period ending in 1943, 164 barrels of crude reserves were discovered for each foot of exploratory wells drilled. This figure has steadily declined during the intervening time so that for the 5-year period ending in 1952, only 85 barrels of crude reserves were discovered for each exploratory foot drilled, a decrease of 48 percent. There is no indication that this declining trend will change in the immediate future. Therefore, to offset this trend and to provide discoveries necessary to meet the increased demand for oil, constantly increasing exploratory efforts for the discovery of oil will be necessary.

It should be remembered that more than 50 percent of the oil produced in the United States is produced by thousands of small independent companies and individuals. Approximately two-thirds of the total wells are classed as stripper wells and produce an average of 3 barrels per day. These wells produce well over 1 million barrels per day or approximately 20 percent of the total daily oil production in the United States. This production must be maintained, but with the great increase in costs, many of these marginal wells could not continue to operate without an increased crude price. Many of them would have to be prematurely abandoned thereby losing their oil forever.

Contrary to the opinion of many outside the industry the remaining 80 percent of the domestic crude production comes from wells averaging 26 barrels per day of oil.

It is generally recognized that a substantial part of the exploratory drilling carried on in the country is done by these same small independents. From our own experience we know that all producers need the incentive of a high crude price to continue finding and developing new reserves.

There is considerable misunderstanding of the figures with respect to aboveground inventories of crude oil and various refined products. The published figures of these inventories indicate the total amounts of the various products without segregating the large portion of these inventories which are unavailable for use or sale. There are no up-to-date figures of these unavailable amounts published.

The total inventories of crude oil include the amounts necessary to fill the thousands of miles of various size pipelines which connect the lease storage tanks with the crude tank farms, terminals, and refineries, as well as the minimum stocks necessary for the efficient operation of these facilities. Of the 280 million barrels of crude inventories, approximately 180 million barrels are unavailable for sale or use. Therefore, the usable crude oil stocks of 100 million barrels represent only 14 days' supply at the current rate of consumption.

A similar analysis of refined products inventories indicates 29 days' usable supply at the current rates of consumption.

Of the various refined products, distillate heating oil inventories have received the most attention. Frequently, over the past year and as recently as 6 months ago, Government officials were urging the oil industry to increase distillate yields and to provide adequate heating oil stocks for the expected normal winter heating season. Because of the unusually warm weather, the stocks which appeared necessary were not all used. This merely means that less than the usual summer additions to heating oil stocks will be necessary to again bring stocks to the desired total for the next heating season.

It is my opinion that current inventories of crude and petroleum products are at reasonable levels. In proportion to demands, they have remained relatively unchanged over the past 3 years, with the exception of the period affected by the strike in the refining industry last year.

It is a well-known fact that the Government has urged the industry to increase its producing and refining capacity to a point of at least 1 million barrels per day in excess of current demand. This was deemed to be the minimum requirement for national security. If that reserve capacity is encroached upon to fill the current demand, then the minimum requirements for national security no longer exist. Yet there are some who would point to that reserve capacity as precluding any price increase as an incentive for further search for additional reserves. They would say that although such reserve capacity should be left in reserve for national security, yet its very existence should preclude the normal stimulants for finding additional reserves. The truth is obvious. A reserve capacity is not excess capacity as long as it needs to be held in reserve, and should not be considered in determining the needs to be held in reserve, and should not be considered in determining the need for incentive for further discoveries of oil.

Other industries have substantially increased the prices of their products since December 1947, as based on Bureau of Labor Statistics of May 1953. For example, the mill price of finished steel has increased 43.1 percent, internal combustion engines 38.4 percent, non-

ferrous metals 30.5 percent, tires 27.3 percent, automobiles 26.8 percent, concrete 22.7 percent, industrial chemicals 15.2 percent, and coal 11.6 percent. These increases were made from time to time during the 5½-year period as costs advanced. On the other hand, the recent increase in the price of crude is the first since December 1947 and is less than 10 percent, notwithstanding the fact that there has been an increase of at least 50 percent in today's cost of discovery and producing crude oil.

An informed public should find no cause for complaint in respect to the belated and relatively small increase in the prices of crude oil.

Thank you.

The CHAIRMAN. Mr. Keeler, I note from your statement that you have not answered except possibly indirectly some of them, the questions which were set forth in my statement of July 1. For instance, I asked these questions and I would like to do so now and if possible have your answer categorically.

Do the increased prices reflect the operation of normal market factors of demand and supply or are they the result of other causes? I assume that you will state that on the basis of the statement you have just made, there must be an incentive. What, if any other answer, would you give to that question?

Mr. KEELER. Well, I would like to supplement my prepared statement in that regard, Chairman Wolverton, in this way: That I do feel that from the standpoint of the market factors of supply and demand, this crude price increase is certainly in consideration of the long-term and long-range supply-and-demand problem of the oil industry. I would like to call your attention to the fact that in the Paley report they state that the additional requirements for national economy, short of war, the peacetime situation, that the additional requirements for our petroleum products will end up with a figure in 1975 that means doubling the present petroleum requirements. They go on to state that if we are to be able to continue the growth of the oil industry at the rate necessary to be sustained, to reach that goal of double our petroleum products in 1975, we are going to have to maintain a minimum of 1.4 ratio of new discoveries to the current production.

In 1952 that ratio had dropped below that minimum set by the Paley Commission. It dropped to 1.2 or 0.2 percent below that.

Further, that was in a record year of drilling wells, as you know. We have no indication that the ratio will improve any this year. In some quarters, I think they feel that it will probably further reduce.

Now, certainly from the standpoint of the long-range demand, and since we have to provide our crude supplies, and assure them, ahead of these situations where you are going to have by 1975 double the requirements, then we are going to have to get the incentive to meet that demand and to take care of it, we are going to have to meet with an additional supply which we feel this crude price will do.

The CHAIRMAN. Has your company been experiencing any lack of crude oil at $2.65, at that price?

Mr. KEELER. No; I wouldn't say that. We have had times, of course that is true in the oil business, as competitive as it is, there are situations as we try to take care of the fluctuations and the seasonal requirements, that we are temporarily short of crude oil. But I think in answer to the spirit of your question, the answer is no, that we

have not had any difficulty here lately with that situation. We did have some problems, as you probably know, back in 1948.

The CHAIRMAN. Did you feel that your earnings position was becoming sufficiently jeopardized by higher costs that it was necessary to increase your posted price for crude?

Mr. KEELER. From that standpoint, our earning position certainly has dropped off. If you will permit me here, I would just like to call to your attention a situation in which our earnings position dropped off in 1952, over 1951, percentage return on total assets, from 9.45 percent down to 8.16 percent.

The CHAIRMAN. Would it be possible for you to give your earnings over a period of the last 10 years, in order that the committee may form some opinion as to whether they have increased or decreased?

Mr. KEELER. Yes, that would be quite possible, and I will be very happy to do so, if you will just permit me to find them. Just parenthetically and off the record, I dont mind telling you, Chairman Wolverton, that a country boy is not used to operatin with all of this battery of help up here.

The CHAIRMAN. If it does not change your figures any, we will go along.

Mr. KEELER. It won't change the figures a bit. If you will just bear with me.

The CHAIRMAN. I have a good deal of sympathy for any country boy that is in the hands of Phillips Petroleum Co., so I want to give you all of the encouragement possible.

Mr. KEELER. How would you like this, Chairman Wolverton. I presume you want the net income?

Mr. HESELTON. I wonder if we could have the gross, also, Mr. Chairman?

The CHAIRMAN. I think in your statement the Phillips Petroleum Co. in 1952 shows the figures at least from both gross and net of 1948, 1949, 1950, 1951, and 1952.

Mr. KEELER. That is right; and now I will start with 1943. The gross income for 1943, the total gross income, was 158,301,893. I am dropping the cents.

The net income for the year 1943 was $14,168,422.

In 1944, the gross income was $203,751,249.

Mr. HARRIS. $203 million? Is that right?

Mr. KEELER. Yes; for 1944, $203,751,249. The net income was $20,952,088.

For 1945, $213,739,522. That is the gross for 1945. The net was $22,571,509.

For 1946, the gross was $221,873,273. The net income was $22,625,151.

For 1947, the gross income was 302,772,051. The net income was $30,893,647.

In 1948, the gross income was $493,724,011. The net income was $72,630,997.

In 1949, the gross was $489,847,612. The net income was $44,514,371.

For 1950, the gross income was $534,063,553. The net income was $51,557,264.

For 1951, the gross income was $610,770,667. The net income was $73,711,229.

For 1952, the gross income was $723,092,386. The net income was $75,284,264.

That covers it for the 10-year period.

Mr. ROGERS. Was that after taxes or before taxes?

Mr. KEELER. I beg your pardon.

Mr. ROGERS. Was that after the taxes were paid or before the taxes were paid?

Mr. KEELER. Our net income is after tax charges.

Mr. PELLY. Do you pay an excess-profits tax?

Mr. KEELER. No; we are not paying an excess-profits tax this year. I am not sure whether we have ever had an excess-profits tax or not. I understand we have had a small amount, Mr. Pelly.

The CHAIRMAN. Now, do you have the figures for your assets over the same period?

Mr. KEELER. Yes, sir; I do have.

The CHAIRMAN. Before you take up the question of assets, it would seem as if there had been an increase then of your gross revenue between 1943 and 1952, as between $159,723,000. I would take that to be something over 400 percent. Is that right?

Mr. KEELER. Yes; if our net had just gone along correspondingly, we would be very happy.

The CHAIRMAN. Well, your net has increased from $14 million in 1943 to $75 million in 1952, which is not quite different.

Mr. KEELER. You misunderstand my meaning there, Chairman Wolverton.

The CHAIRMAN. The percentage isn't greatly different, is it?

Mr. KEELER. Well, I am speaking of our earnings on our total assets, which, after all, is the measure of what your profits are, and what they amount to. They have not gone up over that period correspondingly, by any means.

The CHAIRMAN. That may be true, and we will hear you on that point, and we will also take up the consideration with you when you have given the figures that I have just asked for, as to what chargeoffs there are that make this net.

Mr. KEELER. All right.

Our total assets in 1943 were $281,218,007.

In 1944 our total assets were $318,817,789.

In 1945 our total assets were $317,021,562.

In 1946 our total assets were $332,059,140.

In 1947 our total assets were $439,289,314.

In 1948 our total assets were $579,273,529.

In 1949 our total assets were $607,228,507.

In 1950 our total assets were $667,231,557.

In 1951 our total assets were $779,640,434.

In 1952 our total assets were $922,936,015.

The CHAIRMAN. Would you be able to give us the background of that increase in assets between 1943 and 1952?

In other words, was it due to the issuance of new stock or otherwise?

Mr. KEELER. Well, I don't know that I could supply that in detail that you would probably want. I would certainly be very happy to prepare it for you.

The CHAIRMAN. It may be that you could give us a general answer on that at the moment and fill in the record with more detailed information later.

Mr. KEELER. Well, from a general standpoint, now let me go back, I think that this will give you some idea of the background for it.

In 1943 our company's 3 refineries ran 26,366,051 barrels of crude oil. In 1952 our crude distills was 79,880,986. It represents a growth in facilities over that period of time. We put in additional plants in connection with the war effort similar to those that went into the industry at large. We put in additional pipeline facilities and we purchased and enlarged our refineries. We spread out our marketing area, the area in which we market, and I believe that gives you a general idea. I don't know that that is what you were specifically wanting.

The CHAIRMAN. Well, that indicates in what lines your assets increased. But I am inquiring more particularly as to the source—the financial source—that enabled you to increase those facilities. Was it by the issuance of new stock or was it accumulation of surplus earnings or just what was it that went into your increased assets?

Mr. KEELER. Our increased assets came from the borrowing of money from outside sources, both short-term and long-term indebtedness. From the standpoint of the company's earnings a great deal of the money was put back into the business to further increase assets.

The CHAIRMAN. How much?

Mr. KEELER. Well, I don't believe that I have that figure just at hand, Mr. Chairman, and I will be able to give you that.

The CHAIRMAN. Do you have in mind any approximate figure?

Mr. KEELER. No; I just wouldn't be able to tell you over that period of time.

The CHAIRMAN. Would you be able to give an approximate percentage figure as between the different courses of revenue that increased your assets?

Mr. KEELER. I don't believe that I could give you a figure that would be accurate enough for your study. I will be very happy, Mr. Chairman, though, to submit that to you.

The CHAIRMAN. Well, of course, if you are not able to give it, we well have to wait until the time that you are able to give it. But it would seem to me that it would be possible to indicate at least to the committee the sources that enabled this vast increase of assets from $281 million up to $922 million in the 10-year period from 1943 up to 1953.

Mr. KEELER. It will. I think it will be relatively simple, but I wouldn't want to attempt it here from my own memory, and I don't have such information available as such with and I will have to get it, but I am sure that I can supply it promptly. I will be very happy to do so.

(Mr. Keeler later submitted the following information:)

Question: What is the background of the increase in assets between 1943 and 1952? Where did it come from?

Answer: The company's assets increased $665,603,000 during the 10-year period January 1, 1943, to January 1, 1953, the capital being supplied from the following sources:

Earnings reinvested	$263, 766, 000
Capital stock issued	158, 778, 000
Increase in borrowed money	160, 197, 000
Increase in accounts payable and accrued wages, taxes, etc	70, 405, 000
All other sources	12, 457, 000
Total	665, 603, 000

Question: How much of your earnings were plowed back in the period 1943–52? Percent of total earnings?
Answer: 60 percent.

Mr. PELLY. Could I ask you a question there?

The CHAIRMAN. I would like to finish what I am aiming to do here, Mr. Pelly.

Now, I would like for a moment to go into the question——

Mr. KEELER. Pardon me, Mr. Chairman, if I interrupt. One of our men who is here, I don't know whether this gives you the sort of answer that you want, but 55 percent of our income was retained in the business during that period. If that would be of any help, I will be certainly glad to go beyond that if more information is needed.

The CHAIRMAN. So that the net figures that you gave us as to gross and net income, between 1943 and 1952, 55 percent of that approximately was put back into the business.

Mr. KEELER. That is right. That is 55 percent of our net earnings was put back into the business. I believe the way you stated that, you were talking about the differential between the net and the gross, whereas it is 55 percent of the net earnings.

The CHAIRMAN. I understand it that way.

Now, hurrying along because I anticipate that other members have questions they would like to ask, and I have a great many that I have in my mind to ask, was your increase of crude on June 15, your posted price, in any way the result of the suggestion that had been previously made by a director of a large oil company in his speech in Wyoming before the American Petroleum Institute in which he said that he expressed the opinion that the time was ready for an adjustment of price? Did your action have anything to do with that?

Mr. KEELER. Most certainly not; no, sir.

The CHAIRMAN. I suppose you were aware of that statement having been made; were you not?

Mr. KEELER. I saw here recently, in connection with your hearings, about that statement; but I wasn't aware of it. I was not aware of it until then.

The CHAIRMAN. You did not know of it before you read of our hearings?

Mr. KEELER. No.

The CHAIRMAN. Our hearings at least have some value in the dissemination of information.

Mr. KEELER. I am sure they have.

The CHAIRMAN. Well, it seemed to me that that was a very significant statement that was made in May with an increase of 25 cents per barrel by your company on June 15. Now, if you could give me this information, I would like to know how did it happen that when one company initiated a price increase, all of the others followed suit so quickly? Is this an expression of free competition?

Mr. KEELER. I think it is a very excellent example of free competition. I, of course, don't know what prompted the speed with which these other companies met our price, but I do know that in 1948 when we raised the price, that we gained new connections, and we gained some very excellent oil for our refining purposes, greatly needed oil, which we were able to substantially keep although we had to back down on that crude price. I rather suspicion, and it would be an assumption on my part, though, a speculation, I rather suspicion that

with the high degree of competition in the oil industry, that these other companies certainly did not want to lose any valuable oil connections to Phillips Petroleum Co.

The CHAIRMAN. Is that conjecture on your part?

Mr. KEELER. That is conjecture on my part.

The CHAIRMAN. Not as a result of conversations with anyone?

Mr. KEELER. No, sir; it is not.

The CHAIRMAN. It seems like it is carefully avoided to have conversations.

Mr. KEELER. I have had no conversations and I don't know what has been in the minds of our competitors.

The CHAIRMAN. Well, in 1948 when this committee held hearings, the oil companies all testified to the effect that apart from a period of artificial Government controls, the petroleum prices are determined by the action of supply and demand. I understand from your statement this morning that there are other elements that enter into it besides supply and demand; is that right?

Mr. KEELER. Well, I said that supply and demand entered into it, that it is long-range supply and demand and the management of the Phillips Petroleum Co. feels that it is absolutely necessary that we protect our stockholders by seeing that we have adequate supplies of raw material to go to all of these millions of dollars of facilities that we have built. The fact that it takes a longer period of time to supply those materials, certainly has been the factor of supply and demand entering the picture. It is a long-range supply and demand.

However, I did mention in my prepared statement that the fact that the overall costs of producing and having our crude available has gone up 50 percent, and therefore it certainly is true we realize, and we have heard this from all of these little individual operators. You want to remember that there are some 340,000 stripper wells in the United States, these 3-barrels-or-so-a-day wells and the costs have gone up on those people. When they replace a valve, they have had to pay the higher costs and when they replace the pipe, they have had to pay the higher cost. The additional labor has gone up, and those factors we can see are going to, and we already have an indication on a national basis, that the oil industry is not keeping pace with the discoveries that are necessary to meet the demand on down the road.

The CHAIRMAN. Is that true of your company?

Mr. KEELER. That is true of our company.

The CHAIRMAN. Well, I have understood from your figures, that during the last 3 years your production of crude oil has risen from 35 million to 45 million barrels domestic, and that your purchases have risen from 61 to 80 million barrels. After giving effect to sales of crude, I have not had that in 1950, your own production met 63 percent of the requirements, and in 1951 it met 61 percent, and in 1952 about 56 percent.

Now, does that account for your concern as to the future?

Mr. KEELER. I think that you take a 3-year period, I think that is right, but I can certainly see that we are facing on down the road a shortage of crude oil as far as our company is concerned and as far as the industry is concerned. We are producing right today less crude than we were producing a year ago. We have to buy more crude, I will put it that way.

The CHAIRMAN. In 1948 it was explained to this committee when it held hearings with reference to the increase that took place in the fall of 1947, that the company that increased its posted price did so because it was absolutely necessary for it to obtain additional supplies. Now, your record of your company would indicate that your expansion has gone ahead over these last few years without any difficulty in obtaining its crude. So that when you increase the price, it isn't because of the experience you presently have, but because of what you fear might be the future; is that right?

Mr. KEELER. That is not exactly right. I told you that from the standpoint of a shortage, as far as our company was concerned, that we had not faced a shortage that we had not been able to make up but we have faced shortages from time to time over that period, since 1948, where we had to go out and buy crude, sometimes with extra handling costs, substantial amounts of additional transportation costs, and certainly not economical. We have had to go out and buy gasoline to meet our marketing requirements.

Now, from the standpoint of the overall situation, the Phillips Petroleum Co. does not intend to remain static. It is the intention of our management to continue to grow, and we have found it increasingly difficult to find and be able to take care of our markets. I think from that standpoint, we can say we have had shortages. But from a general standpoint you are correct that the shortage has not been responsible, the current shortage, is not responsible for our crude price rise. I didn't mean to leave that impression.

The CHAIRMAN. That was the impression it had made on me and I am glad that you have made it plain that I got the wrong impression.

Now, when you speak of the necessity of an incentive for new wells, I am confining this now to your company, the records would seem to show that in 1952 your company participated in 769 well completions, and that in 1952, that year, according to your annual report, was one of the best years in your history, as far as new reserves of crude-oil discoveries. And that your new wells gave you a productive ratio of 42 percent compared with 16 percent for the entire industry. Are those figures significant to you, when you state it is a necessity to increase your crude that caused you to increase the price?

Mr. KEELER. It is significant to me in this respect, or they have a place in this respect, that we of the Phillips Petroleum Co., if you look our history over back far enough, you will find that we were a crude seller.

The CHAIRMAN. What is that?

Mr. KEELER. A crude seller, on balance. That is a crude seller on balance. For many years that position was, I think, a very strong point within our company. We are now a crude buyer on balance. Certainly if it were possible for us to keep our production of crude oil up with our growth of our demand for products, in our refining requirements, it would be a very desirable position.

The CHAIRMAN. Well, it is difficult for me to see how you feel the need for increasing the price of crude oil to maintain your drilling program, in view of the statement that I have made as to the results in 1952, and your comparative standing with the rest of the industry, 42 percent compared to 16 percent.

Mr. KEELER. In the face, Chairman Wolverton, of the trend in the industry which I read in my report, my prepared statement, I do not

think that we can gamble on having a year like that year. I certainly don't think that we are in any position to rest on our oars.

The CHAIRMAN. When did you make up your program for 1953 drillings?

Mr. KEELER. Our 1953 program has been a varying picture. Up in the early part of this year, as you know, we had a situation with oilfield tubular goods, but our latest program, I suppose, was a month ago, although that varies from time to time, if the management considers the development progress in fields. It is pretty hard when you are in the oil business, as highly competitive as it is.

The CHAIRMAN. Highly competitive, did you say?

Mr. KEELER. Highly competitive.

The CHAIRMAN. Except as to the price to the consumer.

Mr. KEELER. It is competitive, that is why you get that sort of price situation, and it is pretty hard to take the position that this is going to be our drilling program this year. You have got acreage here next door to X oil company or Y oil company, and you would rather not spend the money perhaps to go ahead and drill that well this year but somebody, X company or Y company on your flanks, drills a well, and they are going to drain that underground reservoir, and your share of the oil is going to be lost to your competitor, and you are forced to drill a well there.

Now, the fact that there is free competition has made it very difficult for you to sit down and say, "Well, now, this is exactly the number of wells you are going to drill," because some other company will start a play in a certain area where you have acreage, or in the process of doing exploratory work, and you have got to go ahead. Our program changes every month.

The CHAIRMAN. When did you fix your program for 1953?

Mr. KEELER. Our what?

The CHAIRMAN. Your program for 1953, I am repeating the same question.

Mr. KEELER. I am not sure that I know that. You mean our picture program, how many wells we would drill?

The CHAIRMAN. That is right.

Mr. KEELER. Well, we had a budget, a general budget that was originally set up and it was worked on last October and reached one consideration by the management in November, as I recall, and then it has been revised several times to meet the changing situation.

The CHAIRMAN. Did your program provide for an upward movement or a downward movement?

Mr. KEELER. Our program provided that we could have a higher price of crude, and, as you will recall, we had the control of the price of crude by OPS until I believe it was in February of this year. On the assumption you would have an increase in the price of crude, our figure was higher. What would happen in the steel industry and what oilfield tubular goods were going to cost back there when this budget was made up, was also a questionable item. It prompted us to look pretty carefully which way we were going to go.

The CHAIRMAN. Was your drilling program based in any sense on the cutdown of allowances by State regulatory bodies?

Mr. KEELER. No.

The CHAIRMAN. Has that not been a practice among oil companies, or some oil companies, that when their allowables were cut down, they

would then construct another well to make up for what they had lost by the reduced allowable?

Mr. KEELER. I could not tell you to what extent that has influenced other companies.

The CHAIRMAN. Have you noticed whether that does happen?

Mr. KEELER. Well, I could see where it could, but I haven't particularly noticed that, no.

The CHAIRMAN. It hasn't in your own company?

Mr. KEELER. Not to my knowledge, it hasn't.

The CHAIRMAN. It would not happen without your knowledge?

Mr. KEELER. Yes; it could very easily happen without my knowledge.

The CHAIRMAN. Who would have the knowledge that would enable us to get an answer to that question if we considered it necessary?

Mr. KEELER. You mean within our own company?

The CHAIRMAN. Yes.

Mr. KEELER. I expect our production-department people would give you an answer, as to whether that has influenced their thinking; as far as I know it has not been called to the attention of the management in that way.

The CHAIRMAN. Now, I would like to go into the question of these costs of new wells. As I take it, you have indicated the necessity to increase your posted price because of lack of supply. Is that right?

Mr. KEELER. Yes, because of the long-range lack of supply.

The CHAIRMAN. Have you lost business to your competitors as a result of your inability to get sufficient crude?

Mr. KEELER. Well, we have lost some business where we haven't been able to supply our markets, but those haven't been of significant volume, and they have been momentary situations. Where you have a widespread operation of marketing facilities it is not always possible to have the materials just where you would like to have it, at the time you would like to have it there.

You get into seasonal problems throughout the year and when the upper Mississippi River freezes up, it can change that situation, and perhaps it is a matter of distribution and maybe it is something else, but it is pretty hard to generalize on that. There are a lot of different factors.

The CHAIRMAN. When you construct a well, what is the bookkeeping with respect to the cost? Is that charged to capital, or is it charged off to operating expense, as reflected in your income statement?

Mr. KEELER. I think I will have to submit a separate report on that, because I don't feel that I am qualified to answer that question in the detail you want.

(Mr. Keeler later submitted the following information:)

In the accounts of the company drilling costs of producing wells are capitalized. Pursuant to permission granted by the income-tax regulations, the company charges intangible drilling costs to expense in calculating its taxable income.

The CHAIRMAN. Well, in the petroleum industry and occupying as high a position as you do, with the Phillips Co., you are not able to tell me right off the cuff whether the cost of drilling wells is charged to capital expense or to operating expense?

Mr. KEELER. No; you wanted to know the details of how that was built up and I couldn't give you that.

The CHAIRMAN. Which is it charged to?

Mr. KEELER. I know part of it, part of the wells capitalized, and it gets into this business of the depletion allowance, which I don't feel qualified on.

The CHAIRMAN. I am going to take depletion up next, and I am talking now about the exact cost.

Mr. KEELER. To the best of my knowledge, the well is capitalized, to answer your question.

The CHAIRMAN. You say it is capitalized?

Mr. KEELER. Yes; from a general standpoint. Now, I don't know——

The CHAIRMAN. Would that be subject to change by some other witness from your company?

Mr. KEELER. It might be. You asked me a question, and I tried to give you an answer.

The CHAIRMAN. That is right, and I appreciate your endeavor to give the answer.

Mr. KEELER. I want you to realize, Chairman Wolverton, that these oil operations are very extensive and manifold. Now, it is hard, and I appreciate that other companies probably have people that can answer any and all of your questions that cover all phases of operation, but I do not think in our company that you would be able to get those answers, all of them, in the detail that you are asking here, without maybe furnishing you separate reports. We certainly want to give you facts, and I wouldn't want to sit here and give you some misinformation.

The CHAIRMAN. I appreciate that, and neither do I want to embarrass you by pressing for an answer which you frankly state you are not able to give. But I do appreciate the importance of answers to some of these questions that I am asking, as the committee lays a basis for whatever report it may make as to the necessity of a 25-cent barrel increase at this particular time.

Mr. KEELER. I will be very happy to get you that answer as promptly as I can.

The CHAIRMAN. Now, what do you know about the chargeoff of the depletion allowance; what is that at the present time? Is that 27½ percent?

Mr. KEELER. To the best of my knowledge, it is.

The CHAIRMAN. Does that come out of income?

Mr. KEELER. The depletion allowance, you say?

The CHAIRMAN. Yes, so that you get a credit for that from the Government; do you not?

Mr. KEELER. Yes.

(Mr. Keeler later submitted the following information:)

Answer: There appears to be considerable confusion concerning the operation and extent of the deductions allowed in the income-tax law for percentage depletion and for the intangible costs of drilling oil and gas wells. It seems to be commonly believed that the oil operator gets a full 27½-percent of his entire gross income as a percentage-depletion deduction and on top of all this he also gets a deduction for the full cost of drilling his oil and gas wells. This view is not correct. Depletion is confined to the income from production. It is not available with respect to income from transportation, refining, or marketing activities The computation is separately made for each producing property. Section 114 (b) (3) of the Internal Revenue Code permits a deduction of 27½ percent of the gross income from each oil and gas property but at the same time limits the deduction so that it cannot exceed 50 percent of the net income from each such property. The tangible costs of drilling wells represented by tangible equip-

ment which has a salvage value must be capitalized and deducted as depreciation based either on the life of the equipment or of the production. The intangible costs of drilling represented by labor, fuel, hauling, and the like are permitted as a deduction but it is a deduction which operates to reduce the net income from the property. This factor accentuates the 50-percent net-income limitation. The following example will illustrate how the deductions would work out in connection with three specific properties on the assumptions stated:

	Property A	Property B	Property C
Gross income for year	$10,000	$10,000	$8,000
Operating expenses, including depreciation	2,000	3,000	4,500
Net operating income	8,000	7,000	3,500
Intangible drilling cost	6,000	0	0
Net income from the property	2,000	7,000	3,500
Depletion	[1] 1,000	2,750	[1] 1,750
Depletion as a percent of gross income	10	27.5	21.9
Tax saved through depletion at 52 percent tax rate	$520	$1,430	$910

[1] Depletion limited to 50 percent of net income from the property.

It will be seen from the foregoing that the percentage-depletion deduction is not a flat and uniform 27½ percent of the gross income of the oil operator even when the income computation is confined to each producing property. Attention is also called to the fact that the depletion deduction claimed in the tax return may in proper cases as to some properties be based on cost as allowed all taxpayers instead of upon a percentage of income. For example, if an oil operator paid $1 million to acquire an undeveloped property (and such payments are not at all unusual) and if the property after development disclosed a reserve of only 500,000 barrels, the depletion would, when computed on a cost basis, amount to $2 for each barrel when produced. As to such a property the depletion computation would, as you can see, be greater than if percentage depletion was claimed. As a consequence the depletion deduction claimed on the return of an oil operator, such as Phillips Petroleum Co., represents a composite of three computations each made as to each property. As to some properties the deduction would amount to 27½ percent of the gross income therefrom, as to some properties the deduction would be less than 27½ percent due to the 50 percent of the net income limitation; and as to some properties the deduction would represent the cost of the oil produced.

The CHAIRMAN. And if you get a credit for the cost of drilling wells, as I am inclined to think you do, and I stand to be corrected if some other witness says to the contrary, then really the cost of all of this drilling is really paid for by the Government, or at least 52 percent of it; is it not?

I assume you do not pay excess-profits tax.

Mr. KEELER. No.

The CHAIRMAN. So it would be the straight tax of 52 percent; would it not?

Mr. KEELER. I beg your pardon.

The CHAIRMAN. It would be the straight corporation tax of 52 percent?

Mr. KEELER. I don't feel qualified to answer your questions.

The CHAIRMAN. Very well, I won't press the point.

Mr. KEELER. Thank you.

The CHAIRMAN. I will confer with you as to who could give us that information from your company

Mr. KEELER. That is fine.

(Mr. Keeler later submitted the following information:)

A: Under a philosophy of government which is based upon the theory that everything the citizen owns and everything the citizen earns belongs in its en-

tirety to the government, it would be proper to say that any concession, either by way of rate of tax or by way of deductions in computing the basis for tax or government exaction, is paid for by the government. However, in my opinion, the theory of government in the United States is that everything the citizen owns and everything the citizen earns belongs to the citizen, subject only to sufficient exactions to satisfy the necessary costs of government. Consequently it is not proper to say that the cost of drilling oil wells, the cost of tilling farms, or the cost of constructing buildings is paid for by the United States Government merely by reason of the fact that the tax law permits a recovery of cost and the expenses of earning income. Congress long ago discovered that the revenue was actually increased when the tax structure contained a provision which, by reason of reduction of rate for example, encouraged rather than discouraged taxable transactions. The capital-gains rate structure of the income-tax law is a classic example of a tax incentive which in the long run produces more revenue than would result in the absence of such a provision because it induces sales and exchanges which would not otherwise occur. The fact that such a provision results in leaving taxpayers with a greater amount of money, after taxes, than would otherwise be the case is no warrant for the conclusion that the additional amounts left after taxes were paid by the Government. The same sort of thinking is involved in the deductions for percentage depletion and intangible drilling costs. To the extent that the tax incentives represented by those provisions aid in inducing the oil operator to seek new reserves and to the extent that new oil is found, new sources of taxable revenue are created so that the Government in the long run has actually benefited from the increased sources of revenue much more than it has lost in current revenue by permitting the deductions.

The CHAIRMAN. And maybe we can get some answers from some of the other witnesses who will appear.

The point I am trying to make and give notice of it, is that the 25 cents a barrel increase does not in itself pay the bill. You are getting the benefit of a depletion allowance for tax purposes of 27½ percent, and also I think that you will find that the cost of drilling those goes into reduction of income, so that those figures are very substantial. In your company they are exceedingly substantial, but I will not make mention of them until I have someone who can give the definite information. But it indicates at any rate that by the depletion allowance and by permission to charge off in your income the cost of drilling wells, it enables the companies to get a very considerable sum available to carry on their drilling without any 25-cent increase per barrel.

Mr. KEELER. Chairman Wolverton, I think that you are inferring by your statements that there is a substantial amount of income and looking at it from the overall standpoint I certainly think that you will agree that for the high-risk business the tremendous hazard that an oil company faces in the business of finding oil and developing fields, that a return on total assets of 8.16 percent certainly would not reflect very much of a tremendous income angle has been at work with that regard.

The CHAIRMAN. I am not going to argue the question as to the advisability or the necessity or the propriety of those allowances at this time. I merely want to develop the figures that will illustrate the extent to which they could enable companies to carry on their drilling and explorations and so forth without any increase of 25 cents or any other price per barrel that seems to have been the reason in this particular case.

(Mr. Keeler later submitted the following information:)

The increase in the price of crude oil is needed. Notwithstanding the fact that percentage depletion has been allowed and intangible drilling costs have been expensed rather than capitalized for income tax purposes, the rate of discovery of new reserves in relation to demand is increasing. The costs have

increased greatly. Therefore it seems apparent that the incentive of an increase in the price of crude is quite necessary in order that new discoveries keep pace with the increasing demands.

Mr. BENNETT. Before you leave the question of costs, might I ask a question or two on that particular point?

The CHAIRMAN. Well, if you will, please, I will only occupy a few minutes more, although I will have to take it up later, but I appreciate the fact that some of you do have questions that you would like to ask.

Now, may I inquire from those who are present, and who will testify today, whether there is the intention on the part of anyone to answer these 17 questions that appear in my statement of July 1. Don't all answer at once.

Mr. WILLETS. I am with Socony-Vacuum, Mr. Chairman. I will try and answer them.

The CHAIRMAN. You represent what company?

Mr. WILLETS. Socony-Vacuum Oil Co.

The CHAIRMAN. And you can answer those 17 questions?

Mr. WILLETS. I will try to.

The CHAIRMAN. That is the most any of us can do.

Mr. KEELER. Chairman Wolverton, I don't know that we could get it back here for you today, but I will certainly try to reduce to writing at least our opinion of the answers to those 17 questions.

The CHAIRMAN. I appreciate, Mr. Keeler, your willingness to assist the committee.

Mr. PETERSON. My name is Peterson, of Standard of California. I will try my best to answer your questions.

Mr. BURKS. I am from Esso Standard, and I will answer them to the best of my ability, and some pertaining to crude production I think others can answer to better advantage because we are not a producing company.

The CHAIRMAN. We appreciate that.

Mr. BAKER. I am Hines Baker. You did not call my name.

The CHAIRMAN. I did not call any name but Mr. Keeler this morning.

Mr. BAKER. I am in the list of those referred to.

The CHAIRMAN. I have not called any list of witnesses yet.

Mr. HARRIS. This morning when you first made the announcement that you had sent wires to four companies, and Mr. Baker represents the fifth company, which he has reference to that was not mentioned.

The CHAIRMAN. I did not know whether he represented 1 of the 4 or 1 of the 5 that you speak of, but certainly Mr. Baker will have an opportunity to be heard at his request.

Mr. BAKER. I will undertake to answer such of those questions as I am in a position to answer.

The CHAIRMAN. Well, it would seem from the answers, as I understand, Mr. Baker represents the Humble Co.

Mr. BAKER. That is correct.

The CHAIRMAN. I gather from his response to my inquiry that, with such able men answering, we will probably get some real enlightenment on these questions that have been asked.

Now, in view of the fact, I will not continue, Mr. Keeler, to ask those questions of you as you have indicated that you are not prepared to answer them today but will do so at a later time.

For the time being, and not because I have finished, I will recognize in order of seniority the members of the committee.

Mr. KEELER. Chairman Wolverton, if you would like to interrogate me on those 17 questions, I am perfectly willing to go ahead with them now; or now if you want me to reduce them to writing, I would certainly be happy to do so.

The CHAIRMAN. I may take advantage of your suggestion later, after some other members of the committee have had an opportunity to ask questions that they are interested in asking. So I have indicated that I have not finished the line of questioning that I wish to make.

(Mr. Keeler later submitted the following answers to the 17 questions:)

ANSWERS OF W. W. KEELER, VICE PRESIDENT OF PHILLIPS PETROLEUM CO. TO 17 QUESTIONS PROPOUNDED BY CHAIRMAN WOLVERTON

Question 1: Do the increased prices truly reflect the operation of normal market factors of demand and supply, or are they the result of other causes?

Answer: I believe the increased prices reflect the operation of normal market factors of supply and demand from a long-range viewpoint. I have covered this in my prepared statement but I might add that the Paley Commission has stated that the future rate of oil production in the United States will depend primarily on the rate of discovery of additional reserves relative to demand and has estimated that by 1975, we will have to double present production. On the subject of meeting this demand, the report states:

"New discoveries and developments must accordingly run about 1.4 times annual production. Except during the Second World War when the steel shortage greatly limited exploration and in the depression of the thirties when incentive for exploration was small, new discoveries and developments have exceeded this ratio by a considerable margin."

Subsequent to the time of the Paley report, the domestic industry had a record-breaking drilling program in 1952 of 46,000 wells. The ratio for that year was only 1.2, as compared to the ratio of 1.4 mentioned in the Paley report as being essential to the national security. The 0.2 difference in the ratio represents approximately 450 million barrels of oil. In addition to the need to stimulate greater drilling, the substantial increase in costs suffered by the petroleum industry, without any corresponding increase in prices, was an important factor as I pointed out in my prepared statement.

Question 2: Was an invitation for someone else to start these price increases issued last May by our biggest oil company?

Answer: No. Phillips Petroleum Co. did not raise the price of crude at the invitation of anyone.

Question 3: How did it happen that when one company initiated a price increase, all of the others so quickly followed suit? Was this an expression of free competition?

Answer: I cannot say what was in the minds of our competitors. Approximately half of our main competitors waited 2 days before meeting our increased prices. One important competitor met our price on the same day in most areas but raised the price an additional 5 cents per barrel for certain fields in Texas. We promptly met that increase in order not to lose valuable sources of supply. Presumably, our competitors met our increased prices for the same reason. It seems reasonable to believe also that the same economic factors which prompted Phillips Petroleum Co. to increase the price in the first place, as related in my prepared statement, motivated our competitors. I believe this was an expression of free competition.

Question 4: Did the company initiating the increase in the price of crude oil do so because it had been losing business to competitors?

Answer: No.

Question 5: How can the increases in crude oil, gasoline, and fuel oil prices be justified today in view of our having the greatest proved reserves we have ever had, record rates of production, high inventories of products, high imports, and an excess of production capacity of a million barrels a day over current rates of production?

Answer: This question is fully answered in my prepared statement. In connection with the justification of our increase in the price of crude oil, I have pointed out that the record level demand, a factor not mentioned in the question, must necessarily be considered in relation to the supply.

Question 6: How can the fuel-oil-price increase be substantiated at this time in view of the high level of stocks and seasonal ebb in demand?

Answer: I presume this question refers to distillate fuel oil used for home heating and not to residual fuel, inasmuch as residual fuel stocks are not high and the demand is firm. With respect to distillate fuel oil, while the stocks are higher than normal at this time of year, particularly on the east coast, that means that refiners will need to add slightly less than the usual amount to stocks during the summer in preparing for the high winter demand. Ordinarily an increase in the price of crude oil is reflected in increased prices of the various petroleum products due to increased costs. The operation of supply and demand factors in this competitive market will determine whether or not the recent product price increases will hold.

Question 7: Is the increase in the price of fuel oil an expression of a policy of discouraging consumers from using oil for fuel?

Answer: No.

Question 8: Has domestic production been so restricted as to jeopardize or reduce supply below current demand through the manipulation of the rates of oil allowed to be produced by the Texas Railroad Commission, or other commissions?

Answer: No.

Question 9: Why has the Texas Railroad Commission, since the increase in the price of crude oil, now raised the amount of oil which may be produced, although stating that production still exceeds demand by 400,000 barrels daily?

Answer: I do not believe that the Texas Railroad Commission allowables since the increase in the price of crude oil were fixed as a result of or took into account the increase. I am not familiar with the statement referred to in the question.

Question 10: In what way do the sustained high earnings of the oil companies show a need for price increases to meet rising costs?

Answer: We feel that earnings of oil companies are neither "high" when properly appraised nor are they "sustained" since records show oil-company earnings were less in 1952 than in 1951 and still less in the first quarter of 1953 than in 1952. Oil companies are in no better position to absorb increased costs than were many other industries which have increased prices to keep pace with increased costs. The earnings of oil companies must be considered in the light of the following factors:

(1) To a large extent current oil production is the result of discoveries made years ago at much less cost than the cost of new discoveries. Stated profits do not take into account this greatly increased cost of replacing the oil produced.

(2) Earnings in relation to assets employed are falling. They have consistently been lower than earnings of many other industries which have raised prices to keep pace with increased costs. The following examples are illustrative.

Earnings—percent on total assets at end of year

	1952	1951
General Motors	13.90	13.95
Du Pont	9.50	10.20
General Electric	9.70	9.50
Phillips Petroleum Co	8.16	9.45

(3) Due to inflation the purchasing power of a dollar is only approximately 61 cents today as compared to 10 years ago. As a result of this one factor alone, the same company with the same assets should earn $1.64 in 1952 for each dollar it earned in 1943 just to keep even with decline in purchasing power. To a certain extent this inflationary factor is duplicated in item (1) above, but there are many other factors affecting the increase in cost of reserves other than the inflationary one.

It is obviously a distortion to compare total profits of an oil company in past years with the present without taking into account the increased assets employed in the business. The profits of a company having total assets of $500

million in 1953 should not be compared with the profits of the same company 10 years earlier when it had total assets of only $100 million, except on a basis of return on total assets, total net worth or some other base which takes into account the increased capital employed.

Question 11: In view of the record drilling in 1952 of nearly 46,000 wells, and a continuation of drilling through the first quarter of 1953 at the same rate as 1952, what is the need of a price increase as incentive for additional drilling of wells?

Answer: This question is fully answered by my prepared statement.

Question 12: How far has the change in the rates of ocean tankers affected downward the price of heating oils on the eastern seaboard, inasmuch as the increased rates for tankers were urged a year ago as reason for a need to increase such prices?

Answer: Our company has no experience in tanker transportation of products and marketing them on the east coast and, therefore, I do not feel qualified to give an answer to this question.

Question 13: Why has California, a traditionally large supplier of oil, been forced to import oil from other areas to supply west coast consumers, and to increase prices, reportedly to meet the higher costs of such imports?

Answer: Our company's activities in California are limited to a small producing operation, and we feel that those operating on an extensive scale in that State are better qualified to answer this question. However, it is common knowledge that there has been an actual shortage of crude oil in that State for some time.

Question 14: Will the increased prices of crude in this country now be met by greater imports from Venezuela, the Middle East, or elsewhere, because crude oil prices there are lower, or will prices be increased so this will not follow?

Answer: Since these questions were propounded, increases in the price of oil have been announced in Venezuela and in the Middle East. We do not feel qualified to answer the question as to whether or not imports will increase or decrease.

Question 15: Will the new foreign voluntary agreement just entered into by our companies operating abroad permit the distribution of any world surplus of oil that might arise, such as were Iranian production again to materialize, just as it covered the distribution of the deficit when the Iranian refinery at Abadan was shut down?

Answer: Phillips Petroleum Co. is not a participant in the agreement referred to, and I do not feel qualified to answer the question.

Question 16: Do the increased prices of gasoline and fuel oil merely represent a foretaste of the higher prices which the major oil companies have intimated would follow the enactment of any policy to restrict imports?

Answer: No. Certainly insofar as Phillips Petroleum Co. is concerned its increased prices had no relation to any proposal to restrict imports.

Question 17: Are the higher prices for crude oil the result of some understanding reached to avoid enactment of a policy restricting imports?

Answer: I know of no such understanding. Certainly, the prices posted by Phillips Petroleum Co. were not the result of any such understanding.

The CHAIRMAN. Mr. Heselton.

Mr. HESELTON. Mr. Keeler, did you actively participate in arranging for this increase?

Mr. KEELER. Yes.

Mr. HESELTON. How many others of your company?

Mr. KEELER. To the best of my knowledge, the majority of our executive committee, and I don't know just what that number was.

Mr. HESELTON. The executive committee?

Mr. KEELER. I say to the best of my knowledge, the majority of the executive group.

Mr. HESELTON. How did you happen to arrive at 25 cents?

Mr. KEELER. I beg your pardon?

Mr. HESELTON. How did you happen to arrive at 25 cents?

Mr. KEELER. Well, it is a figure that certainly there was no desire on our part to want to disturb the economy of the country. We think, and it is with considered speculation, we hope that 25 cents will be

the incentive that it is going to take to provide substantial increases in the drilling of wells. Now, that is going to be something that we will have to find out. The 25 cents certainly does not recover nor have we based our justification for an increase on recovery of the costs commensurate with the increase that we have had in our expenses.

Mr. HESELTON. You say it does not recover them?

Mr. KEELER. No, sir; and there was no effort on our part to try to recover those costs on that basis.

Mr. HESELTON. What figure would cover the expenses?

Mr. KEELER. I believe it would be somewhere around $1.25 a barrel.

Mr. HESELTON. Are we to take from that that we have to anticipate an increase up to $1.25 in the near future?

Mr. KEELER. No, sir; I do not think that at all. I think that the real thing, that, of course, we are after, is to stimulate the further exploratory program to the extent that we can be assured that we are going to have ample supplies of crude oil.

Now, in our judgment, and our judgment may not be correct, in our judgment we thought that 25 cents would do this, and we have made that raise. That will remain to be seen.

Mr. HESELTON. Do you anticipate another rise?

Mr. KEELER. No, sir; we have not thought about another rise. I think we will have to wait and see what develops.

Mr. HESELTON. How much consideration did that committee give to the extra cost to the consumers?

Mr. KEELER. The management of our company, of course, weighs that considerably. We think that there is no doubt that from the standpoint of the economy that it would have an impact. We recognize that. We felt that was a conservative position to take in view of the rising cost. Certainly from the consumers' standpoint we felt that the public recognizing and realizing that the costs had gone up as they have, when in comparison to other industries they have made adjustments during this same time, we feel that the public in general would accept that.

Mr. HESELTON. You mean they have to accept it, do you not?

Mr. KEELER. No; they do not have to accept it.

Mr. HESELTON. What are they going to do?

Mr. KEELER. I believe you are from Massachusetts.

Mr. HESELTON. What are they going to do, refuse to buy?

Mr. KEELER. They certainly have had situations in the past. I think that this takes place any time where you have the pressing upward of prices on any economic balance that you have an adjustment and have a new level up here, and then you go into normal supply-and-demand situations, that is, current supply-and-demand situations, certainly I do not know that is the case. I called your attention to the fact that in 1948 we calculated that the situation required a 35 cents a barrel increase, and we placed that increase into effect.

A few of our competitors in the particular areas where the connections were very desirable met our increase. I do not know——

Mr. HESELTON. Do you know of a single company that has not increased prices?

Mr. KEELER. I do not know of a single company that has not, but it is very possible that there may be. I just do not know. The crude rise is not the same throughout the country.

Mr. HESELTON. The major companies have all increased the prices to the ultimate consumer; is that not right?

Mr. KEELER. Yes; but my point is that it is not the same amount. There may be some economic factors at work that will change some of those. We raised the price, for instance, in the Pend O'Reille field in Montana 5½ cents and 8½ cents at Cut Bank, Mont. On the gulf coast there are certain fields that carry a 30-cent figure and others 25. I am just not prepared to say. I would certainly hope that it would remain.

Mr. HESELTON. I received last week information that if these increases had been imposed and maintained for 6 months, the total additional cost to the users of petroleum would be at least $325,500,000. They would not go beyond that because they do not know what the demand situation will be But I think you have indicated this morning, and other responsible men in the industry did indicate that they anticipate an increase in demand in the foreseeable future.

Would you care to comment on that estimate of additional cost as to whether it is sound?

Mr. KEELER. I do not know whether that is a sound estimate or not. I know that it will represent if higher products costs are adjusted to this a substantial amount of money. I am not prepared to confirm those figures that you have just read me.

Mr. HESELTON. You would not challenge them?

Mr. KEELER. I reserve judgment on the figures, Mr. Heselton, because I just have not put them in that particular light.

Mr. HESELTON. In the consideration that you gave to the consumer in this matter, did anybody in the company estimate what the additional cost would be in terms of your products?

Mr. KEELER. Yes. There were some estimates made of how much this would affect the overall balance.

Mr. HESELTON. What was the estimate?

Mr. KEELER. I believe that figure was roughly 2 million 8.

Mr. HESELTON. For what period?

Mr. KEELER. That is for an annual period.

Mr. HESELTON. How much crude do you produce in contrast to what you purchase?

Mr. KEELER. We are producing right now in the neighborhood of 126,000 barrels, and we are refining in the neighborhood of 240,000 barrels a day.

Mr. HESELTON. What is the first figure?

Mr. KEELER. 126,000 barrels per day.

Mr. HESELTON. I think you used the word net.

Mr. KEELER. No; we were a net purchaser of crude. In other words, that difference is 114,000 barrels of crude that we are having to buy. We do not produce enough crude to supply our needs. We have to go out and buy. We are a purchaser, in other words.

Mr. HESELTON. Did any of the suggestions of an increase come from the people from whom you buy?

Mr. KEELER. You mean have they raised the price of crude on us?

Mr. HESELTON. No. You raised the price of crude, as I understood it. Did anybody suggest that to you, that is, any of your suppliers?

Mr. KEELER. No; I did not understand your question. We have had these suggestions from people that we purchased crude from. Certainly there has been a wave of people—all these little independent

businessmen—who said they just cannot continue with this ever-rising cost picture, and they have told us that they do not know whether we can be assured of a continued connection. To that degree, they have talked to us that they are going to have to have more money for the crude oil.

Mr. HESELTON. I want to ask for one further figure. As I have it, in 1948, your net income was $72,630,917.

Mr. KEELER. $997.

Mr. HESELTON. We have in the record from a witness last week a contrast of the profits of integrated oil companies, that is, net after income taxes between 1940 and 1948, listing 12. Can you give me your figure of your net after income taxes in 1940?

Mr. KEELER. Our net profits?

Mr. HESELTON. Yes.

Mr. KEELER. The earliest report that I have with me is 1943, but I can certainly provide you with that figure.

Mr. HESELTON. I wish you would do it, because I would like to see how the percentage of profit increased in that period. There is a listing of these companies:

	Percent of profit increase
Atlantic Refining	316
Continental Oil	1,155
Gulf Oil	593
Mid-Continent Petroleum	731
Pure Oil	377
Shell Union Oil	611
Sinclair Oil	2,037
Socony-Vacuum Oil	264

Mr. HESELTON. Will you furnish the percentage of increase in your case?

Mr. KEELER. I will be very happy to.

(The information is as follows:)

The percentage of increase in the rate of earnings of Phillips Petroleum Co. and subsidiaries on total assets from 1940 to 1948 was 144.92 percent, the rate in 1940 being 5.12 percent and the rate in 1948 being 12.54 percent. However, the year 1948 was a peak year for oil-company earnings. Since that time the rate of earnings has declined substantially. If the 1940 earnings rate is compared with 1952, the percentage of increase is substantially less, namely, 59.37 percent, the rate of earnings in 1952 being 8.16 percent. Total income in 1940 was $11,590,317 and in 1948 $72,630,997, an increase in total income of 527 percent. Total income in 1952 was $75,284,261, an increase from 1940 of 550 percent. But during the same period the total assets of the company increased substantially. In 1940 they were $226,559,130; in 1948, $579,273,529; and in 1952, $922,936,015. Moreover, all increases should be viewed in the light of the drastic reduction in the value of the dollar since 1940.

Mr. KEELER. I want to point out that sort of figure certainly does not mean anything.

Mr. HESELTON. It may mean something to the consumers of the country when it is asserted that they can do something about this when in fact they cannot do anything about it.

Mr. KEELER. I am sure that the consumers of the country, if they have a certain set asset, they are interested in knowing how much money is returned from that asset. I think if you review your figures of those different companies—I have not gone into that particular tabulation you are talking about—on the basis of the return on the assets, you will find that these companies have not made a very high profit. I think you will find further when you compare them, and I

have a comparison here if you care to go into it, from the standpoint of other industries, the oil industry certainly is not returning the largest percentage on assets. There are several companies that are returning higher figures.

I also point to the fact that the oil companies' return on assets is decreasing. In 1952 over 1951, the Chase National Bank shows a substantial decrease in their report.

Mr. HESELTON. That is all, Mr. Chairman.

Mr. O'HARA. Mr. Bennett.

Mr. BENNETT. Mr. Keeler, in your prepared statement you say that the total cost of discovering and producing oil has increased 50 percent since December 1947, and yet there has been no general increase in the price of crude oil. Does that mean that the oil companies have been absorbing this extra cost over that period?

Mr. KEELER. Substantially; yes.

Mr. BENNETT. Is not that an unusual situation?

Mr. KEELER. We think it is.

Mr. BENNETT. That a company can absorb 50-percent increase in the cost of its production without increasing the cost of its product?

Mr. KEELER. We think that very definitely is. If the oil companies were made up solely of production companies—and that was my point—much of this crude comes from the small independent businessman who does not have an integrated operation to help absorb those additional costs.

Mr. BENNETT. Have the costs of your company gone up 50 percent over this period?

Mr. KEELER. For the drilling and exploration of wells?

Mr. BENNETT. Yes, developing and producing and discovery.

Mr. KEELER. Yes.

Mr. BENNETT. And in spite of that 50-percent increase in your cost you have been able to operate profitably?

Mr. KEELER. No, I would not say that. Well, we have operated profitably. We certainly have not gone up like these other companies have in the spread of profits based back on the total assets with some of these other industries.

Mr. BENNETT. I am not talking about that. I am talking about the ability of any industry to be able to have its costs of production increased 50 percent and being able to absorb that without increasing the price of its product. What I am getting at is that there must be in the case of the oil companies a substantial cushion to be able to permit you to absorb any such increase.

Mr. KEELER. The exploration and drilling of wells is one part of an oil-company operation. Those costs have gone up.

Mr. BENNETT. You say they have gone up for everything. You used the term in your statement, the total cost of discovery, developing, and producing has increased 50 percent.

Mr. KEELER. There is one thing that I think I should point out to you, Mr. Bennett, along that line. It may have been lost. We thought possibly it was recognized by the way we presented it in the prepared statement. That is this point. We are right now operating on crude that was discovered and developed 5 to 15 years ago, and it was at substantially lower cost. We just cannot keep on going this way. We feel this is urgent. We feel that with these costs we have to do something. We think you are aware of the fact that during the time of

price control that there were several attempts made to raise the price of crude. There were several requests to consider the raising of the price of crude in various areas. That same situation certainly, we think, has existed for quite a period. The time to replace these lower cost reserves is now. We just felt we could not hold off any longer on attempting to give an incentive to the drilling of some more wells.

Mr. BENNETT. Do you know of any substantial industry in the country that can stand a 50-percent increase in the cost of production without increasing the cost of its product?

Mr. KEELER. I do not believe that I do. But I do not believe that I am qualified to really give you an answer to that.

Mr. BENNETT. The price of steel, for example, is one of the big items that go to make up the costs in your industry; is that not true?

Mr. KEELER. That is right.

Mr. BENNETT. The cost of steel, according to your statement, the mill price of finished steel has increased 43.1 percent over this same period.

Mr. KEELER. Yes.

Mr. BENNETT. That is because their cost of production has increased, and they passed the cost on to the consumers; is that not so?

Mr. KEELER. That is right, and that is exactly what happened in the oil industry, and we have not passed that on and we should have.

Mr. BENNETT. What I am wondering is how you are able to survive unless you have a lot bigger cushion to operate on.

Mr. KEELER. You are missing one point.

Mr. BENNETT Just a minute. Let me finish my question.

The question in my mind is how you are able to survive when apparently you are the only large producing industry in the country that can have its cost increased 50 percent over this period we are talking about without you passing on any of that 50-percent increase to the consumer.

Mr. KEELER. Mr. Bennett, you are from Michigan, I believe, where they manufacture a lot of these automobiles.

Mr. BENNETT. Yes.

Mr. KEELER. If the automobile manufacturers had gotten their steel and had fabricated their parts for an automobile 5 to 15 years ago, it stands to reason that those parts were going to go into an automobile that would produce a cheaper car; is that right? Now, if the automobile manufacturer would use up—and he sees the end of it in sight—those lower price parts, and these new parts that are coming in are costing more, he is going to have to sooner or later do something about his price.

Mr. BENNETT. That is absolutely true, and they have.

Mr. KEELER. You call that a cushion. If you want to call it that, that is the kind of cushion the oil industry has. I feel that it is closer to saying that we have possibly an inflated statement because the cost to replace the raw materials we are now producing in our plants and refineries and facilities have gone up considerably more, and we do not have any increase in price on that raw material.

Mr. BENNETT. I know this is true.

Mr. KEELER. We just cannot go on indefinitely that way.

Mr. BENNETT. Of course not. I am trying to find out how you have been able to do it this long. The only answer I can come up with, and I am not an expert on these matters, is that if you can absorb a 50-

percent increase in cost when no other concern can make a similar absorption, you must be in a unique position profitwise.

Mr. KEELER. Is there any other concern that you want to compare it with which would have a similar situation where their raw materials have to be found and have assured supplies 5 to 15 years in advance of the day that they are grinding them into products?

Mr. BENNETT. I just know generally speaking, and I think that is borne out by your statement, the costs of production are passed on. That is necessarily true. Here we find an industry that can absorb 50 percent; 50 percent is a substantial increase, is it not?

Mr. KEELER. I will tell you this, Mr. Bennett, that the Phillips Petroleum Co. recognized just exactly what you are saying, and they tried their very best back in September 1948 to do just the thing you are talking about.

Mr. BENNETT. What I mean is that if you were able to get along from 1947 to June of this year absorbing a 50-percent increase in cost of production, which you say you have, and able to get along on a substantial profit margin during that period where is the necessity of putting this increase into effect?

Mr. KEELER. How are we going to replace those low-price reserves unless we have a crude price increase?

Mr. BENNETT. According to your own statement this increase only accounts for 10 percent of the increased cost over that period. So in effect even with this increase, according to your figures you are still absorbing 40 percent of the cost.

Mr. KEELER. That is true.

Mr. BENNETT. And I am wondering how you can do it.

Mr. KEELER. That is true. We are absorbing. I think it is very possible that the situation would not adjust itself in the future. We did not know what we would be facing. We were hoping that this Government would stop this endless chain of price spiraling and inflation. That has not happened. The automotive industry in your own State, the steel industry, the labor situation is still continuing. We really faced the possibility of having lower costs.

I want to also call your attention to the fact that along with the lower cost raw materials which we found several years ago, that we have had substantial improvement in technological developments that have permitted us to maybe carry a part of this load.

Mr. BENNETT. Is it fair to say that this 27½-percent depletion charge is the main thing that permits you to absorb these extra costs without passing them on to the consumers?

Mr. KEELER. I do not know. I cannot really give you that answer. I am not qualified to give you that answer.

Mr. BENNETT. Do you have somebody in your company that could answer that?

Mr. KEELER. Yes, but they are not present here today. I would certainly be happy, if you like, to try to have that answered for you.

(The information follows:)

It is not fair to make that statement. The main thing which permitted the postponement of the increase in price was the fact that during the years in question the products sold to consumers were being manufactured to a very large degree from crude-oil reserves acquired in earlier years at low cost.

Mr. BENNETT. Thank you; that is all.

The CHAIRMAN. Mr. Rogers.

Mr. ROGERS. I believe you stated that you bought some 142,000 barrels of crude oil that you used in your refineries; is that true?

Mr. KEELER. No; we bought 114,000 barrels.

Mr. ROGERS. And you produced yourself how many?

Mr. KEELER. About 126,000 barrels.

Mr. ROGERS. Then you have not gained so much by this increase in crude oil.

Mr. KEELER. No.

Mr. ROGERS. Very little?

Mr. KEELER. Very little.

Mr. ROGERS. This 25 cents' increase that you posted on June 15, how much has the price of gasoline per gallon gone up since this price in crude oil was posted by you?

Mr. KEELER. How much has the price of our gasoline gone up?

Mr. ROGERS. Yes; or any other gasoline sold by Standard or Esso.

Mr. KEELER. I think that has varied in different parts of the country. For instance, in some of our operations, the price has not been reflected yet in certain areas. I think, by and large, there has been a corresponding adjustment to pretty well balance out against this crude rise.

Mr. ROGERS. Would an initial increase of 25 cents per barrel of crude oil justify the increase in gasoline that has been put in effect by Esso and other companies?

Mr. KEELER. I would think you have this situation. The price of crude increase is going to improve your long-range development of oil property and bring in reserves. By the same token, though, the 25 cents a barrel increase is going to mean an additional cost to the refiner. Very likely the thing that will happen there is that you would have an adjustment for that difference. The refiner will make adjustments. I think we have seen some of that. I believe that in the heavier oils that has not been reflected as yet, but I would anticipate that it probably would.

Mr. ROGERS. On an average, Mr. Keeler, how many gallons of refined gasoline do you get out of a barrel of crude oil?

Mr. KEELER. That will run roughly about 50 percent on our operation.

Mr. ROGERS. How many gallons would that be out of a barrel of crude?

Mr. KEELER. A barrel of crude oil has 42 gallons to a petroleum barrel, and that would be 21 gallons of gasoline.

Mr. ROGERS. What would be, then, the proportion of increase to the refiner as compared to the increase in crude oil? What I am trying to get at is how can these companies justify the increase in what they make on gasoline per gallon as compared to the increase of the crude oil.

Mr. KEELER. I do not know. I cannot, of course, speak for the other companies. We did not initiate any rise in price on products. But there have been, and we followed where our competitors have raised prices. The really big markets that are involved so far are outside of our regular marketing territory. They are substantially here on the east coast. From that standpoint, I am not too aware of the market situation to say just how much of that is being absorbed by gasoline, and how much by distillate or how much by some other product.

Mr. ROGERS. What is your gasoline selling for on the market now?

Mr. KEELER. Our house brand gasoline was 10.375 a gallon before this increase, and on July 1, 1953, it was 11.375, a cent a gallon increase.

Mr. ROGERS. What would that cost the consumer to purchase when you take into consideration the taxes?

Mr. KEELER. After you take into consideration the taxes?

Mr. ROGERS. Yes. How much would that be per gallon?

Mr. KEELER. That motor fuel will vary according to the State. Different States have different taxes. We are talking about something up around to 27 and 28 cents a gallon, I believe, probably on the average, although there are some States that have considerably more taxes than others.

Mr. ROGERS. I have been using Esso to some extent, but the price has been increasing lately, and I think it has gone up here in the District a cent and a half or 2 cents in the last 6 months. I believe the last price was 30⅜ cents per gallon, and it went up since this increase in the crude oil.

Mr. KEELER. That was a group 3 price that I was giving you there. On the Gulf Coast Platt Oilgram quotations the price has gone up from 10.75—this is house brand gasoline—to 11¼ cents. That is a half cent a gallon increase. That is the quotation of Platt's Gulf Coast dated July 1, 1953. So I do not think that products prices have been the same necessarily all over the country. As I said a little bit ago, there are a lot of factors that enter into that problem, and I just do not know what their problem is here.

Mr. ROGERS. This is the last question I have. What is the usual difference between your price and the charge to the consumers without regard to tax?

Mr. KEELER. In other words, you mean how much of it is taxable?

Mr. ROGERS. No. What is your charge to the consumer?

Mr. KEELER. We have no direct marketing outlets. Our company does not have any direct company marketing outlets. We sell to people who have leased our stations and to jobbers and to terminal operators who are handling our gasoline.

Mr. ROGERS. How much is your usual charge to them?

Mr. KEELER. I was giving you these prices here. There are some variations depending on the type of operation a fellow has. If he is in the filling-station business or if he is a jobber handling and has a big terminal, that is another situation.

Mr. ROGERS. Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Pelly.

Mr. PELLY. Mr. Keeler, during the past 10-year period that was covered by those figures which you gave in response to the chairman's inquiry, you were expanding a lot. Did you have the benefit of certificates of necessity and accelerated depreciation for any of those new facilities?

Mr. KEELER. Yes; we did have.

Mr. PELLY. And those will all be written off in a relatively short time and taxwise it has helped you considerably, has it not?

Mr. KEELER. It helps you at the moment, and then on down the road I am not so sure that it is not going to end up reflecting on your statements.

Mr. PELLY. You applied for them. You must have thought it would help you.

Mr. KEELER. I think from the type of company we are, we certainly had to have that incentive, that tax amortization to build up some of these plants that we built at the urging of Government.

Mr. PELLY. I notice in the figures that you quoted and all references and ratios you have given, you have referred to the gross assets and the fact that the percentage of profits in ratio to the gross assets for a 10-year period an increase——

Mr. KEELER. I think I gave you total assets.

Mr. PELLY. Well, total assets.

Mr. KEELER. Yes.

Mr. PELLY. Actually, would it not be fair to compare your earnings with your net assets or your net worth?

Mr. KEELER. Let me give you something. The chairman told me he was going to ask this, and I think I got on another subject, and he did not get a chance to ask the question. He wanted to know how those assets were gotten together, and what they amounted to. I think that I ought to see if I cannot get that description for you. Total assets represent our current assets which are cash, any United States bonds or any bond like that which we have, notes and accounts receivable, less reserve, inventories, crude and refined products, materials and supplies at cost or condition value, notes, accounts receivable and contract advances, and investments less reserve, capital assets, properties, plants and equipment, and that is less reserves for depreciation and depletion. That is the figure.

We have, of course, prepaid and deferred charges. Those sum up to a figure of our assets.

Mr. PELLY. Those are the figures that you read?

Mr. KEELER. Yes.

Mr. PELLY. But actually the investment that the stockholders have in the company is represented in the net worth. In other words, the assets less the liabilities. So that your ratio of profit really should be compared with the investment that your stockholders have in the business. I think that it would be interesting to me to know over that 10-year period what the actual stockholders had in there and not what your total assets were. In other words, the net worth of the company. You started in in 1943 with a $14 million net profit, and you end up in 1952 with the highest one you made of $75 million net profit, and I am interested to know how that relates to the investment that the stockholders have in the business, the net worth. Do you have the 10-year figures on the net worth? It must be down there if you have the balance sheets for those years.

Mr. KEELER. I was trying to figure out whether you were talking about current liabilities and long-term debt and deferred credits.

Mr. PELLY. No; I am talking about the net worth of the company, the assets less the liabilities.

Mr. KEELER. I think there is more than one way to express that.

Mr. PELLY. What does your capital stock show plus your surplus?

Mr. KEELER. You want capital and surplus. Is that the figure you are looking for?

Mr. PELLY. Yes, for the 10-year period.

Mr. KEELER. In 1943 our capital and surplus, that is, common and capital stock authorized, issued, and outstanding, and the earned surplus, was a total of $211,359,228.

Mr. PELLY. Could you give me what it was in 1952?

Mr. KEELER. Yes, sir; I believe I can, $613,452,013.

Mr. PELLY. In other words, the return on the equity of the stockholders in 1943 was $14 million on a total investment of $211 million, and in 1952 it is $75 million on $615 million equity of the stockholders.

Mr. KEELER. Yes.

Mr. PELLY. That changes the ratio considerably from the assets, the figure we had before. I think that clears the picture for me, Mr. Chairman. Thank you.

The CHAIRMAN. Mr. Pelly has indicated he is satisfied with the answer you made. Are you satisfied you have given as full an answer as is necessary to explain the situation?

Mr. KEELER. As far as I know. I do not know, of course, what significance he places on that.

Mr. PELLY. What I am getting at is this: That the earnings to the stockholders are considerably better than 10 percent. We had a figure before from you of 8 percent.

Mr. KEELER. The stockholders are earning more than 10 percent.

Mr. PELLY. On their investment, that is, the stock plus the surplus. On $615 million investment, the return was $75 million after taxes.

Mr. KEELER. Have you compared that figure lately with a no-risk business of some of these other industries in the country?

Mr. PELLY. I am not indicating at all that I do not think it is a reasonable return.

Mr. KEELER. That is fine.

Mr. PELLY. I wanted to get a true picture of the situation.

Mr. KEELER. I am certainly happy to give you all the figures that you want. I thought you were indicating or inferring that maybe that was not a reasonable return.

Mr. PELLY. I think that was your own conscience bothering you. I had no inference.

Mr. KEELER. Thank you. I heard in some quarters that oil people do not have consciences. I appreciate that.

The CHAIRMAN. Mr. Derounian.

Mr. DEROUNIAN. Mr. Keeler, I am a bit curious about your comment before about the rise in price being a perfect example of free competition. The consumer at the gas pump, I do not think, would agree with that comment. Competition in his mind, it would seem to me, is that if Phillips raises petroleum or a barrel of crude 25 cents, Esso comes along and reduces it 25 cents. That is competition. The price is reduced, and it is not raised. Here we have a spectacle of companies running to see who can raise the price first. It is competition in reverse. I am just wondering whether or not if this keeps on around 1975, with your saying the stocks are being depleted, that we should not look forward to paying 70 cents a gallon for gas.

Mr. KEELER. What is going to happen to costs between now and 1975?

Mr. DEROUNIAN. I do not know.

Mr. KEELER. Is steel going up? Is cement going up? Is labor going up?

Mr. DEROUNIAN. You oil people are saying to us in the House, "Let us not have a completely free market. Let us not have too many imports because if we do, you are going to ruin our industry." You are going to ruin your own industry if gas is going to be 75 cents a gallon in 1975.

Mr. KEELER. I would not predict that. I do not know whether it will be of any help to you, but I would not predict that we will have 70-cent gas in 1975, unless the Government fails to encourage the stopping of this continued round of inflation.

Mr. DEROUNIAN. Mr. Keeler, do you think that you have contributed to furthering that round?

Mr. KEELER. I feel we were hind men on the caboose. The whole train went through before we got started.

Mr. DEROUNIAN. This increase will give you about $24 million additional, will it not, based on your current production a year?

Mr. KEELER. No.

Mr. DEROUNIAN. How much will it give you?

Mr. KEELER. Are you talking from the standpoint what this is going to mean to Phillips?

Mr. DEROUNIAN. Yes.

Mr. KEELER. No. I told you that I think that with the plusses and the minuses in the markets, our estimate is $2,800,000.

Mr. DEROUNIAN. $2,800,000 is less than 1 percent increase to you on your total gross income a year, is it not? What makes it so necessary, then, if you have been able to get along, as Mr. Bennett pointed out, for so many years carrying the load with a 50-percent increase in production costs, and suddenly you want less than 1 percent increase in your income?

Mr. KEELER. Are you suggesting that we should raise that?

Mr. DEROUNIAN. I am trying to find out why this 25 cents was necessary at this time.

Mr. KEELER. It is so simple to me—and I am sorry I cannot seem to get this message across—the 25 cents, we hope, will start the pump of exploration and development so that we can be assured that these low-price raw materials which we could not replace today at their cost will be able to at least replace them and have a backlog of raw materials to take care of our plants and be able to take care of the expanding economy of the country—our part of it. It is an incentive to drilling. It is just that simple.

Mr. DEROUNIAN. Is this oil increase contemplating the increased production, say, 15 years from now?

Mr. KEELER. Does it do what?

Mr. DEROUNIAN. Does it help to further increase production 15 years from now?

Mr. KEELER. Oh, yes.

Mr. DEROUNIAN. Do you think that is fair that you should have the consumers today paying for what you are going to bring back 15 years from now?

Mr. KEELER. Do you think it is fair——

Mr. DEROUNIAN. Answer my question first, please.

Mr. KEELER. No.

Mr. DEROUNIAN. You do not think so?

Mr. KEELER. I do not think it is fair for the consumer to assume that he is going to get the same price when our costs are going up.

Mr. DEROUNIAN. I asked you the question, do you think it is fair to have the consumers today paying for what you are going to get 15 years from now? Is it not a fairer way to sell stocks and bonds on a long-term capitalization, instead of having the consumer pay day by day for what you are going to get in return 15 years from now, and that is apparently what you have been doing in the last few years?

Mr. KEELER. Apparently what we have been doing, and we should not have, in my opinion, is that we have been selling these products, and the consumer has been getting a free ride when all the rest of these industries, the things that the oil industry probably should have done, kept pace with the rise, but we have not done that.

Mr. DEROUNIAN. Do you mean to stand before this committee and tell us that you are in a bad financial plight today insofar as Phillips is concerned?

Mr. KEELER. No; I have not indicated that at all. We are feeling very good.

Mr. DEROUNIAN. I will certainly say you are. But there is this thought in the mind of the consumer, as was brought out in the testimony last week: You get a little greedy and eventually you get public clamor for control, and eventually you will get some kind of commission to control the price of gasoline as you now have with the utilities. Gas is no longer a luxury.

Mr. KEELER. What is the major greediness? How much earnings are you saying that the oil industry should have?

Mr. DEROUNIAN. I am not saying any specific amount. It would seem to me that where you have less than 1 percent increase on your gross income over last year's income because of this 25 cents, I think you could have just as well done without that 25 cents at this particular point when you are trying to stop inflation. That is all I said.

I have no further questions, Mr. Chairman.

The CHAIRMAN. Are there any further questions, gentlemen?

Mr. HESELTON. I call the witness' attention to the fact that on July 2 I filed a bill which would create a National Petroleum Commission. I will be interested to see how the other witnesses approach this problem and explain not only to the committee, but to the public, the reasons for this rise in the face of other facts that they admit.

The CHAIRMAN. I think, Mr. Keeler, that the point our colleague from New York, Mr. Derounian, was endeavoring to make may have been based somewhat upon the statement which was contained in your last report to the stockholders. You stated in that report:

> The company's 35th anniversary year was marked by a new record in net earnings as well as real progress in the current program of upgrading price—

and so forth. You speak with great pride of your net earnings of $75 million as compared with $73 million in 1951, and your gross income was $723 million, over 18 percent higher than that of the previous peak year of 1951, and that your dividend had increased, and all those other elements that enable the head of a great corporation to point with pride to the stockholders of its record for the year. So I think there is some justification in the questions of my colleague that have been directed to you in order to ascertain why in the face of all this do you have a feeling that a calamity is about to fall upon you if there had not been an increase of 25 cents per barrel. I agree with him. The two do not seem to go together. Before we get

through we will have a better understanding of this matter as you have endeavored to give it to us, or maybe it will substantiate the thought that a good many have that the condition is such as not to justify it at this particular time.

Now, may I ask in that connection, what was the picture June 15 at the time you raised your posted price that made you think there was any less wildcatting activity?

Mr. KEELER. The picture was this. During 1952, the discoveries of crude oil in ratio to the current production had dropped down to 1.2 from a ratio of 2 the year before. Now, if we are going to take care of these markets—and we have had considerable Government pressure and urging of the public, and the oil industry has certainly rallied at every point of trying to do the job of taking care of its customers—if we are going to take care of that program on down the road, we already see that we are not going to be able to take care of it unless we get more discoveries. Those discoveries have to go up.

What does it take to make more discoveries? Our conclusion on June 15 was that it was going to take, and it has been our contention prior to that time, but certainly on that date, some more money for the price of crude oil.

We believe—I do not know whether it is sound or not—it remains to be seen—that 25 cents might get the job done, and that is why we posted the price of crude.

The CHAIRMAN. It is my purpose later in the day as we continue our hearings to go into that question.

The hour of adjournment for the morning session is so near at hand that I am not going to go into that now. But I assure you I am going to go into it this afternoon. In connection with what you have just answered, I want to bring to your attention this fact, and remind you of the testimony of a number of witnesses before the House Ways and Means Committee as late as May 12 and 13 of this year, in which they stated that there was little diminution in drilling activity, if any, and that wildcat drilling actually was at a higher rate in 1953 than in 1952.

Do you agree with that statement they made before the Ways and Means Committee?

Mr. KEELER. No; I do not agree with it.

The CHAIRMAN. Then that is the answer. You do not agree with it. But the fact remains that is the testimony that they gave before the Ways and Means Committee, and yet you have stated here this morning that you felt it necessary to provide an additional incentive to enable especially wildcat drilling to go on. Yet those gentlemen say it is at as high a rate in 1953 as previously. In what particular are they wrong, or on what basis are they wrong?

Mr. KEELER. I was going to say that the reason I did not agree is that wildcatting, of course, does not mean you are going to find crude oil. The thing that worries us is not drilling holes in the ground. As far as that goes, to the best of my knewledge, we are drilling at the same rate in 1953 as we were in 1952, namely, 46,000 wells a year. If that was a record high, if we did not find any new discoveries in 1952—and I do not care how much wildcatting was going on—it you mean that their situation was not as I described it, that our discoveries to production are going down, then I disagree with them.

I think our discoveries to production have been going down since 1951.

The CHAIRMAN. Your company has a 33.54-percent stock interest, has it not, in the American Independent Oil Co.?

Mr. KEELER. Yes.

The CHAIRMAN. You have had a well recently come in that provides 4,000 barrels a day; is that right?

Mr. KEELER. That was the test on the well.

The CHAIRMAN. How is that oil disposed of?

Mr. KEELER. It is not in production yet.

The CHAIRMAN. Is it your intention that it shall be brought into this country?

Mr. KEELER. There are other interests in the American Independent, of course, that will have to decide in connection with their interests. We have 33 percent, and I do not know what steps we will take. But I would assume that our part of the oil we have a call on it. If we do not have a foreign buyer it will come to this country and be refined here.

The CHAIRMAN. Did you have in mind that additional source of supply when you formed the opinion that it was necessary to increase the price of crude oil in order to give an incentive?

Mr. KEELER. The incentive to increase the drilling program that we are speaking of is not a worldwide problem. It just occurs to me that maybe these gentlemen you referred to might be talking about a worldwide program. But to Phillips Petroleum Co. and the domestic program that is where that incentive as we see it is going to have its most important effect, in the domestic drilling progam in the United States.

Now, to answer your question—I do not think I did—you asked me if that was a factor in making our decision. No.

The CHAIRMAN. Should it have been?

Mr. KEELER. I think that will depend entirely on what sort of markets we can find for that crude if and when it develops that we have an operation that justifies it.

The CHAIRMAN. What is your estimate of the resources in the Kuwait field?

Mr. KEELER. We are in the process of making a study now, and we have not completed that study.

The CHAIRMAN. Up to the present time what did it add up to?

Mr. KEELER. Are you talking about the particular field in which we are operating, or are you talking about all of Kuwait or the neutral zone?

The CHAIRMAN. I am speaking of the field in which the American Independent Oil Co. is interested, or fields if that is the correct statement.

Mr. KEELER. We could have on the optimistic side a considerable oilfield over there. As I say, we are in the process of making studies. Our people have just been in contact with the American Independent Oil Co. and are examining the geological data. We could have a considerable oilfield over there.

On the other hand, I notice that apparently some of the people who are in the American Independent probably are not as optimistic as we are on what the possibilities are.

The CHAIRMAN. Has the American Petroleum Oil Co. in its report to stockholders made any report as to what the resources are estimated to be?

Mr. KEELER. They possibly have. If they have, they have not been reported back to our management that I know of.

The CHAIRMAN. In other words, although you have a one-third interest, you are not familiar with what the resources of your company are?

Mr. KEELER. No, I do not think that is the situation. I think the situation is that we have one well that was drilled, and we found oil. We drilled another well and we found some oil. The second well was not as favorable as the first. It is sort of like trying to plot a curve with one point. Where does that curve go? You have to get the testimony and judgment of experts and that is being done. The American Independent, I am sure, if they do not have that answer, will shortly have it. They just had a meeting at San Francisco, and it is possible that was disclosed at the meeting. But that has happened since I left.

The CHAIRMAN. How long has the American Independent Oil Co. been in existence?

Mr. KEELER. Five years.

The CHAIRMAN. How long has it had its area of operation in Kuwait district?

Mr. KEELER. During that time.

The CHAIRMAN. How much money has it spent?

Mr. KEELER. One of our men here has said that he believes that is $8 million and possibly a little more in that area.

The CHAIRMAN. That your company has put in?

Mr. KEELER. No. I thought you asked the question about American Independent.

The CHAIRMAN. I did.

Mr. KEELER. Our share of American Independent is approximately 33 percent. So we are saying that our money in that would be roughly $3 million.

The CHAIRMAN. Regardless of the amount that you have put in, you put the money in without knowing whether there was any oil in there or not, or how much?

Mr. KEELER. That is one of the hazards of the oil industry, that you put your money where you expect to have oil. I think I referred to the possibilities that you have for finding oil.

The CHAIRMAN. That is the reason I asked as to what the estimate was. I have found that at times there can be estimates that are optimistic, and some of that are not so much so.

Mr. KEELER. Yes.

The CHAIRMAN. My mind always goes back, if you will permit me to say this, to the early hearings that this committee had in 1933 or 1934 under the chairmanship of Mr. Cole at which time I was a member of the committee, at which time it was brought to our attention, and on many occasions since, that some of the leading geologists had claimed that there was no oil in east Texas. Yet we have seen a far different result.

Mr. KEELER. Yes.

The CHAIRMAN. So that is the reason I say that I only asked as to your estimate in the field to which I made reference.

Mr. KEELER. Our estimate, I am sure, will be on the optimistic side. That is south of the big Bergen oilfield, and certainly looks like it has tremendous possibilities.

The CHAIRMAN. Before we adjourn, I want to ask one or two other questions.

Mr. KEELER. Mr. Wolverton, I have just been informed that in connection with this last meeting that was held of the American Independent last week, the decision was that they were going to have to do some more drilling before they could determine what the structure was, and what the possibilities were.

The only thing I want to call to you attention is that Phillips has 33⅓ percent, I guess it is, of the American Independent. But of that zone, American Independent has only 50 percent. The other 50 percent belongs to Pacific Western.

The CHAIRMAN. Now, changing our bases for a moment, I would like to call to your attention this statement in your prospectus that was issued on May 26, as amended June 10, in which it was stated:

> Substantially all of the company's production of crude oil and natural gas occurs in States having ratable production and conservation laws designed to minimize drainage of oil and gas reserves and increase ultimate recoveries. These laws and the applicable regulations vary considerably, but in effect impose restrictions on current production which restrictions are changed from time to time. These restrictions have been more stringent in 1953 than in 1952.

Do you mean there has been more stringent restriction of supply as a result of those restrictions by State regulatory commissions?

Mr. KEELER. I mean that the conservation practices have possibly been made a little tighter, that is, the interpretation of some of those practices.

The CHAIRMAN. Would not your statement that I have just read from your prospectus seem to indicate that there was some basis for the question that I asked previously, namely, that the cut down of allowables by State commissions would create the necessity of your company or some companies making extra wells to make up for it?

Mr. KEELER. I think the explanation you are seeking here—I probably missed that point—is that we had a shutdown in the Sprayberry field in west Texas.

The CHAIRMAN. Yes, I am coming to that.

Mr. KEELER. And that represented a curtailment of the crude operations that we had in that field. It was necessary for us to go out and buy other crude to fill in for that particular crude that we were not producing.

The CHAIRMAN. Do you mean that these "more stringent" restrictions on your production in 1953 is what forced you to put up your price for crude oil?

Mr. KEELER. No. I meant to make it clear that we did not put up our price on any shortage of crude oil, that is, any immediate shortage. It is the long-range shortage that we have. We could not possibly in the short time that Sprayberry had been shut down drill wells quick enough to make up 10,000 barrels a day of crude oil. That is roughly what it meant to us. As far as I know, and I have not meant to say, that there was an existing shortage. We were able to continue our operations by additional purchases.

The CHAIRMAN. In the same prospectus on page 18, you continue with this statement:

> A recent exercise of such regulatory powers to a rather extreme extent is an order of the Texas Railroad Commission effective April 1, 1953, wherein the commission ordered all production of oil gas with minor exceptions from the Sprayberry trend area in west Texas to cease until such time as adequate gathering, processing, and pipeline facilities are available to handle for lawful use all casinghead and plant residue gas formerly being flared in that field.

On the face of it, that in my opinion would appear to be an order of the commission which had something to do with conservation as distinct from controlling the rate of production; is that true?

Mr. KEELER. Would you mind repeaing that question. I do not believe I followed it.

The CHAIRMAN. I say, that statement I have read from your prospectus, which relates to the Texas Railroad Commission order cutting out the allowables in the Sprayberry trend area would seem to appear to be an order of the commission based upon conservation, rather than controlling the rate of production; is that right?

Mr. KEELER. Yes, that is correct.

The CHAIRMAN. Just why, then, has your company appealed this order to the Supreme Court of Texas? I note that order you say is costing you $365,000 a month; is that right?

Mr. KEELER. It is costing us same loss in income at this time. It depends entirely how we end up out there. If we are not drained, the crude and gas are going to stay there, and we should get the crude and gas out if the wells have not been damaged by shutdown. As far as I know, they have not been.

The CHAIRMAN. Is your company opposed to conservation laws?

Mr. KEELER. No, I do not think our company is opposed to conservation laws. But there is a very important principle that I should think should be appreciated, and that is this, that that particular shutdown on the part of the Texas Railroad Commission represented on their part an interpretation of their conservation policy to the end that if gas was flared beyond a certain limit you would not be able to produce the well. The thing that has bothered us is not from the standpoint of conservation. We certainly subscribe to it. We believe it is in the interests of the industry and in the interest of the national economy to have conservation practices. But if you start out in a new area and you drill a well, and just as soon as that well is brought in and shows some gas—it is a gas and oil well—over and above the figure that the Texas Railroad Commission has indicated, if they shut that one well in—it still is not a field, it has structural possibilities of being a field—until that gas can be sold, then it is going to represent a problem to the producer as to how you are going to be able to develop the field.

By the same token pipelines are not going to be able to get financing to go in and recover the gas. From that standpoint a lot of producers have been worried about that particular problem. I think that is the problem. It is not a question of saying that you are against conservation because I do not think any of us would take that position.

The CHAIRMAN. Did this order of the Texas Commission so reduce your production or affect your production or purchases that it was necessary on June 15 for you to increase your posted price by 25 cents a barrel?

Mr. KEELER. No.

The CHAIRMAN. It is now 1 o'clock. The committee will recess for 1 hour.

(Thereupon at 1 p. m., a recess was taken until 2 p. m., the same day.)

AFTER RECESS

The CHAIRMAN. The committee will come to order.

Mr. Keeler, will you take the stand.

STATEMENT OF W. W. KEELER, VICE PRESIDENT, PHILLIPS PETROLEUM CO., BARTLESVILLE, OKLA.—Resumed

Mr. HESELTON. Mr. Chairman.

The CHAIRMAN. Mr. Heselton.

Mr. HESELTON. Mr. Keeler, I would like a little further information on two portions of your main statement.

First, to the increasing depth of drilling running around 3,000 to 13,000 feet. That is on the top of page 5. Are there many wells drilled to a 13,000 feet depth?

Mr. KEELER. To 13,000 feet?

Mr. HESELTON. Yes.

Mr. KEELER. Oh, yes. I would say a number of wells we are drilling are in that range.

Mr. HESELTON. Is that true of the other companies?

Mr. KEELER. I do not believe I could tell you what the average depth is for all oil companies. Just a moment. I may be able to find out. I would not be able to give you the average depth. Would you like to have me get that information for you?

Mr. HESELTON. I do not think it is too important. When you furnish the other information you may add that to it.

Mr. KEELER. We have wells beyond 13,000 feet that we have been in the process of drilling.

Mr. HESELTON. Then on page 7, you refer to the total inventories of crude oil, include the amounts necessary to fill the thousands of miles of various size pipelines which connect the lease storage tanks with the crude tank farms, terminals, and refineries, as well as the minimum stocks necessary for the efficient operation of these facilities.

Mr. KEELER. Yes.

Mr. HESELTON. You gave the figure of 180 million barrels out of 280 million barrels of crude inventory being in that way available for sale or use. May I inquire what the source of that information is?

Mr. KEELER. That is our own estimate. There have been published figures for 1951 and back of 1951, but we do not have any published figures for 1952. What we have done is take 1951 figures and make an estimate on the basis of the new pipelines and facilities that we know of that are being built, and added to the overall system set up in the country.

Mr. HESELTON. I was advised by what I thought a reliable authority that the figure actually would be about a quarter of that.

Mr. KEELER. No; I would think that figure you were advised on would be very low. We can check this point for you because we do not have it in front of us, but in 1951 there was roughly 150 million

that was published as being unavailable, and roughly the same amount of crude.

(Mr. Keeler later submitted the following information:)

In the report of the National Petroleum Council committee on petroleum storage capacity issued December 9, 1952, showing figures as of March 31, 1952, in table I, column 4, is given the figure of 168,998,000 barrels as being unavailable for use out of the total of 256,504,000 barrels shown in column 2 as the total stocks of those companies replying to the questionnaire (representing 99 percent of the total stocks shown by the Bureau of Mines as of the same date). To this figure we have added 11 million barrels as our estimate of the additional quantities of unavailable crude stocks due to increased refining capacity, increased capacity of barges, increased crude pipelines, and increase in working stocks, bringing the total unavailable stocks as of June 30, 1953, to 180 million barrels.

Mr. HESELTON. How do you handle that in a financial way?

Mr. KEELER. That is a part that is priced in our statements in our assets. We give a figure for inventories, crude oil, petroleum products, and merchandise, and that is increased in that figure. If we add a new pipeline system and that crude goes into that line that becomes a part of the total inventory of the company. It is not available, though, as long as we have that particular facility continuing to operate.

Mr. HESELTON. Did you know that one of the companies in the Northeast has announced a reduction in distillates?

Mr. KEELER. In crude.

Mr. HESELTON. In kerosene and distillate.

Mr. KEELER. In price? No; I was not aware of that.

Mr. HESELTON. That occurred just this weekend.

Mr. KEELER. No; I had not realized that.

Mr. HESELTON. I wonder whether that will have any impact upon you.

Mr. KEELER. Yes, it certainly could. I said this morning—and I think maybe the figure was bothering some members of the committee the way I said it, that we had estimated that when all of the pluses and minuses were taken into account that we might stand a chance from this crude rise to recover an additional $2.8 million for the year. When we did that we took into consideration that some of these prices are not going to go up and some may go up more than others. In other words, the estimate had to be placed on judgment of the local situation. I had not learned about that one that you had reference to.

The CHAIRMAN. Mr. Keeler, I would like to go into the question of depletion cost. It is having a bearing on the information contained in your reports, both for stockholder purposes, prospectus purposes, and income purposes.

Suppose we get the basic information first. Will you explain to me the amount that you charged off last year in your books as depletion and depreciation?

Mr. KEELER. We charged off in 1952 for depreciation, depletion, and amortization $847,479,574.

The CHAIRMAN. I think it is broken down in your prospectus.

Mr. KEELER. The figure I gave you was an accumulated figure, and you want it for the year. For depletion of intangible development costs, $16,998,121. We have depletion and amortization of leases, $7,890,124. The depreciation, retirements, and other amortization, $48,746,236.

The CHAIRMAN. Will you tell me how those figures are made up?

Mr. KEELER. No. This morning I mentioned to you that I do not

feel qualified to make statements in regard to those items. We do have people that are qualified in their company, and we will be glad to make a statement, if you will tell us what you would like to have.

The CHAIRMAN. What was the total for last year?

Mr. KEELER. In round numbers? You are talking about the total of depletion of intangible development cost, and depletion and amortization of leases, that would be roughly $24 million. If you add on depreciation, retirement, and other amortization, it will be around a total of $70 million, roughly.

The CHAIRMAN. Did you take that reduction in your income tax?

Mr. KEELER. Yes. That came out as a cost and expense in order to get the net income. I presume that is your question?

The CHAIRMAN. That is right.

Mr. KEELER. Yes.

The CHAIRMAN. Does that represent the 27½-percent depletion allowance?

Mr. KEELER. I do not know that I could answer that question for you. I would recommend that if you would like that answer I can certainly find it out for you, or if you would like to have a more detailed study of it I think we should get one of our people that is familiar and has an everyday talking understanding of those figures, because I think we would not want to give you any misimpression here.

(Mr. Keeler later submitted the following information:)

No, the depletion reflected in the published statements is based upon the cost of the oil in the ground as reflected by the accounts of the company and bears no relationship whatever to the depletion deductions provided for in the income-tax laws.

The CHAIRMAN. The point I am leading up to, to give you an insight in the hope that may assist either you or someone else in your company to give the information, is that I have noted that your crude-oil production for the 3 years 1950, 1951, and 1952, respectively, was 35,528,000, 41,905,000, and 45,285,000 barrels. As I work it out, using only crude, that would amount to amortizing your development charges in 1950 at 50.7 cents a barrel; for 1951, 46.7 cents a barrel, and, for 1952, at 51.3 cents a barrel.

It would seem to me, offhand, Mr. Keeler, that does not look like much of an increase on the average over the past few years. On a consolidated basis, using the same production the barrel cost amortized as I get it from your reports, are 54.3 cents and 55.1 cents. Would you supply the committee with the calculations which you have used in your accounting, at least as to oil depletion for the last 3 years, and any additional figures which you have carried in other accounts that pertain to dry-hole expense?

Mr. KEELER. Yes, sir; we will try to get you that information.

(The information is as follows:)

Drilling costs are not reflected in the financial statements contained in the annual reports. Consequently calculations based upon figures contained in those statements are meaningless insofar as drilling costs are concerned.

The CHAIRMAN. Now, speaking of depletion for income-tax purposes, it does not show on your book accounts that I have before me, but I do understand that you set up for income-tax purposes an additional amount for depletion based upon your crude-oil production. Am I right in that or not?

Mr. KEELER. I just would want to reserve an answer on that whole problem of the bookkeeping in connection with depletion, because I have not followed that end of the business very much, and I do not feel personally qualified to give you an answer.

The CHAIRMAN. As I understand it, it is something of the order of 27½ percent of the value of your own crude-oil production. That is the first thing I would like to make sure of, that is, what you based the 27½ percent on.

Mr. KEELER. In connection with our report to you, we will try to get all of that information for you.

The CHAIRMAN. With oil at $2.65 per barrel, I assume that it would mean about 73 cents a barrel, or $32,765,000 in 1952 on your domestic production of 45 million barrels. You are not able to tell me at this point whether that calculation is about right or not?

Mr. KEELER. I am not.

The CHAIRMAN. But you will supply it?

Mr. KEELER. Yes.

(The information is as follows:)

The depletion claimed on the tax return for 1952 with respect to domestic crude-oil production was $28,477,000. The tax reduction by reason of this depletion was 52 percent or $14,808,000 or $0.327 per barrel.

The CHAIRMAN. Now, in charging off development cost, I would like to come back for a minute to the annual depletion charges that you do make, which is represented as the amortization of your development cost of the life of the property. These costs were $23 million in 1952—or approximately that—and $24 million on a consolidated basis. These costs were charged off to income during the year. Is that right?

Mr. KEELER. A question of that sort, as far as I am concerned, falls in the category of the phase of the business that I would not be able to give you any qualified answer on.

Mr. CHAIRMAN. I am not calling on you at this time to state whether the figures that I have used are correct, but could you answer me as to the principle that is involved? Are these costs charged off against income during each year?

Mr. KEELER. I am not sure of that language you are using. Are you charging it against income?

The CHAIRMAN. Yes; that is what I am asking you. Whether that type of charge is not made against income.

Mr. KEELER. Yes.

The CHAIRMAN. I thought it was. I would have been surprised if the answer was otherwise.

Mr. KEELER. I was not sure whether you said charged for income. It confused me a little bit.

The CHAIRMAN. I see. I am sorry. Of course, the extent to which that has been charged off in your income affects your tax charge very considerably, does it not?

Mr. KEELER. Yes, it does.

The CHAIRMAN. In other words, if that chargeoff was not made for your income-tax purposes, your tax on the amount that was charged off would have been 52 cents more, for each dollar, would it not?

Mr. KEELER. On the assumption that the figures the way you have arrived at them are correct, I think that is right.

The CHAIRMAN. So there was a 52-percent tax saving on the amount that was charged off.

Mr. KEELER. I would think there would be; yes.

The CHAIRMAN. That is, I have assumed that you have the normal rate, and not any excess-profit rate in that.

Mr. KEELER. Yes. I am also assuming that the figures from which you have taken your information are figures that come from our statements, and that being so, in principle certainly you are right.

The CHAIRMAN. They are based on calculations I have made, but I might have been mistaken in my calculations. That is the reason I am confining my inquiry at this moment to the question of the principle that is involved, that is, that you get a tax reduction for this depletion allowance of 27½ percent.

Mr. KEELER. Yes.

The CHAIRMAN. I did want to make sure then as to how you charged that, and as against what, that is, the 27½ percent. Are you able to tell me that?

Mr. KEELER. No; I would recommend that we include that in a comprehensive study so that there will be no doubt left in your minds as to how we handled this thing. I am afraid if I were to attempt to answer it, I would probably confuse it further, and I am not sure I would be accurate.

The CHAIRMAN. It would seem to me—and I hesitate to give my calculation as too authoritative and I am counting on someone in your company doing it—that the $32 million approximately, if that is the right figure, which you have applied to your expenses in calculating your income tax, that this amount which you are allowed to do under the law relieves your income-tax liability, of course not by the full amount, but by 52 percent, or in that case it would be approximately $17 million.

It amounts, it seems to me, to this: Within limits the dollar you spend and chargeoff to income each year for actual development expense is in effect 52 percent paid by the Government.

In addition, the Government, through the depletion allowance, extends an additional amount which is even greater. Now, is it not true, Mr. Keeler, that on the basis of the figuring we have been going through that inasmuch as you are a profitable, going concern, in addition to recovering your development costs from the consumer for every $1 you spend, you receive from the Government, or more properly stated, do not pay the Government what you otherwise would, a dollar and a half?

Mr. KEELER. I am not sure of that.

The CHAIRMAN. There is somebody in your company that probably knows whether it is right or wrong or to what extent it is right or wrong, because I see a smile going over the faces on some of the fellows that would indicate intelligence on the subject.

Mr. KEELER. Here is a man that would be excellent to answer that.

The CHAIRMAN. I have no objection to your calling on your aide at any time, and it would be much more helpful to me, and probably to other members of the committee if we could have the fact rather than just a smile. I cannot tell from the smile whether it is agreement or disagreement.

Mr. KEELER. This is Mr. Kenneth Beal, a vice president of our company. Mr. Beal, are you prepared to answer Chairman Wolverton?

Mr. BEAL. I think the question he is asking should probably come from our accounting executive. While I know in generalities what has happened, I cannot state with exact terms just how they do these things. This last question I would have to have repeated because I did not follow you quite clear through to the end.

The CHAIRMAN. Probably I better leave it for you to read from the statement, and in that way make your answer. Certainly when men of your intelligence in accounting in a company such as this are not readily able to answer offhand my question, I do feel a bit justified in having asked the question.

Mr. BEAL. Surely.

(The following information was later submitted:)

The calculation is wrong. In general the only sources of income for an oil company are the dollars it receives from the customers who purchase its various products. These dollars, representing the gross income of the company, are all that are available for paying its various expenses, including income taxes. Out of this customer dollar must come the money to pay the cost of the products sold, the operating costs including depreciation and depletion for replacing the plants and raw materials of carrying on the business, and the income taxes, and any balance left belongs to the stockholder who furnished the capital to carry on the business. It should be obvious that there is no possibility that the residue left out of the customer dollar after paying for the above items could possibly exceed the total of the customer dollar, which is the only source of cash income. The fundamental axiom "the whole is greater than any of its parts" still holds.

The CHAIRMAN. I am getting this into the record so that you can follow through, if you will.

Now, Mr. Keeler, you have spoken of incentive for increasing the rate of crude oil discovered. It just seems to me in my layman's mind that an incentive whereby one gets back his cost plus one-and-a-half-fold more would appear to be a real incentive toward finding oil. I have not expressed at any time an opinion for or against the wisdom of allowing this incentive that is the result of congressional action. This is not necessarily a matter before us at this time. But what we are endeavoring to ascertain is how much justification there can be in view of all the assistance that does come, that there should be an increase of 25 cents a barrel to increase incentive. It would look to me as if the incentive is already there.

Mr. KEELER. That probably appears to you, Chairman Wolverton, that that is the case, but with all the incentives that you allege that we have—and I do not contest your figures because, as I say, I do not have that field of financial statement to give you a yes or no answer—we still are not able, those that are in the oil industry, apparently, to continue their drilling of more wells that are going to be necessary to find the oil that will be needed for years to come. We do not want the homes to be cold and the public to suffer. If all these things that you say are benefits, and I say they are incentives and have been incentives to drilling, but after you have added up all of those, if the drilling rate ends up with the rate of discovery against our rate of production dropping off, then you have to add some other incentive.

You could add that incentive by costs going down. I think that would be a desirable approach. That has not been the case. Costs have gone up. Therefore, the incentive, as we see it—and maybe we have oversimplified the problem and have not taken too much into consideration all of the angles in connection with depletion, I am not saying that idly because those in our management that have that

phase of it have considered that in their judgment of this whole problem—that still we are not getting results. That is what we are looking for. Twenty-five cents is what we think it takes to start the job. It remains to be seen as to what is going to happen.

The CHAIRMAN. I yield to Mr. Heselton.

Mr. HESELTON. I would like to have the record contain this statement and any comment you want to make on it at this particular point in view of the answer you just made to the chairman:

> In addition to a moderate decline in current production rates, there has been recently a decline in drilling rates. Much of this cutback in drilling in west Texas is due to both economic and conservation reasons. Actually more wildcat wells were drilled in the first quarter of 1953 than in the corresponding quarter of 1952. Geophysical activity is continuing at high level and exploration and leasing also. These are not signs that the American producer has lost interest. In fact, I think previous levels of exploration activity represent what might be regarded as a normal level as compared to a rather abnormal level in past months.

Will you comment on that?

Mr. KEELER. I will comment on that in this way, that the discoveries of crude oil are not reaching the magnitude they should. From the standpoint of wildcat wells versus other drilling, I think in the final analysis you have to look at the results. The results are that we are just not getting the crude oil.

We can philosophize, as I say, and conjecture about a lot of these angles, but in the final analysis unless this country starts finding more crude oil—maybe the solution is more wildcats or maybe more development wells, maybe lower prices or maybe higher crude prices—but in the final analysis we find more crude oil in this country, the economy of the United States is going to suffer. I certainly have not tried to oversimplify this problem but it seems just that simple to us, that we are not finding in the final analysis the crude oil. I do not contest your figures, because that is not the purpose of what I am trying to get across. I do not care how many wildcats we drill, if we are not finding oil. We have to have an incentive, and you are right there to drill wildcats.

I think 25 cents a barrel, regardless of what that number is, is going to be an incentive for more wildcats to be drilled. If they find the oil and develop new sources of oil, then we are going to be in good shape. If they do not, we are going to have to find some other incentive to cause a still greater number of wildcats, regardless of where we start.

Mr. HESELTON. You refer to some figures. I should say this was a paragraph from a speech made at the Capital of Wyoming on May 7 of this year to the Rocky Mountain district of the American Institute of Petroleum Production. I would like to make the record clear that is not my statement.

The CHAIRMAN. Mr. Keeler, as I have carefully considered your testimony today, it would seem as if your basic reason for having suggested an increase in your posted price of 25 cents was to give encouragement generally to other companies, to independents, wildcatters, or whatever term you may wish to apply to them, to increase their explorations and the drilling of wells, is that right?

Mr. KEELER. Yes, and the Phillips Petroleum Co. to help recover some of the costs due to the rise in the cost of production and development expense.

The CHAIRMAN. But there was no immediate need from the standpoint of your own company to do so, as I understand it.

Mr. KEELER. Yes, sir, there is immediate need. There is immediate need for the whole industry to do that, as far as I am concerned.

The CHAIRMAN. It depends on what you mean by immediate. There is not in this present year the necessity. It is an effect it might have with respect to the future.

Mr. KEELER. One of the problems that I think is hard to appreciate within the oil industry is that it takes so long—and you made mention, what makes me think of it, earlier today—that when we were shut down in Sprayberry that the thing we should have done was to start immediate drilling of wells elsewhere to make up for that crude oil. The thing that I probably have not made clear is that you cannot—this is just the way things have happened historically unless you go out and find the one gusher, and the chances are certainly against you doing that or very remote—you just cannot develop crude supplies quickly. That takes time. Our crude supplies in which we are operating right now we developed 5 to 15 years ago. When we find out that our crude supplies are cut down or are tapering off, and our drilling rate is not out of line with the industry from the standpoint of what we have been able to develop with respect to the relation of discoveries to production, when we take that into consideration we found that in 1952 we had already started falling behind. In 1953, 6 months have gone by and we are still in that same position. How long a company can go before it corrects that situation, I am not sure that I know. But I think it is one of those situations that has to be done just as soon as you can do it.

This is not within the space of a year's time. We have had this problem. I am speaking of industry and Phillips Petroleum Co. We would like to drill some wells that we cannot drill because of the oilfield tubular situation. What if this defense problem flops the other way? If we let that drop without making steps to develop new sources of crude oil in these times when we have materials and we can do these things, then it puts us in a very precarious position, not only companywise, but nationwise, to not have the material to be either the raw material for our own plants, but the raw material that might be needed in the case of war.

Everybody, I realize, is saying that we have peace in Korea. We have no problems. But as far as I am concerned, and as far as our management is concerned, we do not think that the time has come to say that we can forget that. We do not need to fix the roof because it is not raining, and then when it rains, why we cannot fix the roof. That is the way we sort of feel about that, Mr. Chairman.

The CHAIRMAN. As I look over the situation, and hear the testimony that you have given and have before me the facts which I have taken from your different avenues of public information, such as your report and prospectus and so forth, it does not seem to me that your company, whatever might be said as to the others—and we will inquire into each as we go along—above all others had any reason on June 15, 1953, to increase this price. You have admitted, as I understood your testimony, that you have not found any difficulty in getting the oil to meet your demands. You have a better record in that respect than probably some of the others. Your wells gave you a productive ratio of 42 percent as compared with 16 percent for the entire industry.

If this affects other portions of the industry, as I would assume from the reasons you have given, why is it that some other company did not start it? Why did it fall to your company to be the one to start it, especially when we recognize that Mr. Rathbone in his speech in Wyoming in May, I think, said that it looked as if there would be coming an adjustment of prices? Then you pick the ball up at that point and carry on. You even make some reference to it in your prospectus as a possibility.

What I find difficult to understand is that when your company came to the conclusion that it was necessary for you to increase the posted price that other companies, even before the day was out, before the next morning's sun had come, had agreed to post their price increase equal to yours. What brings about this unanimity of action on the part of our oil companies, both from the standpoint of price paid at the production and at the standpoint of the price charged to the consumer? I have never seen in any business that is alleged to be competitive such a unanimity of thought; that in many instances from the standpoint of the consumer where I am most interested, and probably have the most information, there never seems to be any variation whatsoever.

I am aware of the fact that television, radio, automobiles, and everything else that is on a competitive basis shows differentiation of price to the purchaser, but the oil industry is distinctively different.

I have in mind traffic circles near my own home to which I have previously made reference, where company A at one point on the circle raises its price for gasoline to the consumer. He hardly gets the sign up before company B next door puts its sign up, company C puts its sign up, until it goes on around the traffic circle and until it runs up to company A, and each company in that whole circle has increased its price, so that there is not even one-tenth of a cent difference.

Mr. KEELER. Have you ever watched those go down?

The CHAIRMAN. If that is competition, then it is not the same kind of competition we have in these other industries. That is the thing I am trying to get at in these hearings and I am depending on the information from those who are best qualified to give it as to what is the background. You have very emphatically stated that you have not spoken to anyone else in the industry when you made the increase.

Mr. KEELER. That is right.

The CHAIRMAN. I take your word for that. But the fact remains that it could not have been more unanimous in action if you had called everybody into 1 room at 1 time and agreed upon it and said, "We are going to increase the price today at 4 o'clock," and the rest of them before midnight would have increased their prices following suit when they had made sure that you had done so.

From a public standpoint—and you must realize that this committee has that responsibility—we are looking at it to try to ascertain that there should be this unanimity of action: In the original instance in the production of crude and in the final price to the consumer. Secondly, with all of the incentives that are already given by legislation of a congressional character, why under the circumstances with the earnings of these companies going up tremendously year after year—yours, I think, in 10 years, has gone up over 400 percent—with assets increasing and with earnings increasing, that it is so necessary to put

25 cents a barrel on crude to create an incentive and to charge it up to the public.

I have said a lot and it has all been done with the idea of trying to make plain what it is in my mind at least that I think requires an answer.

Mr. KEELER. Mr. Chairman, I would like to answer you in this way. Of course, the fact—and I do not know, you apparently know—of how quickly the different oil companies raised the price——

The CHAIRMAN. I will take your word for the fact that you never spoke to anybody else and I will ask you to take my word in the same way.

Mr. KEELER. I will be very happy to do so. I am assuming it was quickly. I do not know how quickly you indicated, a day or something. But, regardless of that point, I am in no position to ascertain what prompted these companies that have joined in this crude rise to act that quickly. I can remember so well that in 1948 there was not as many joined and it was not any quick action.

I think historically, however—I believe I am correct—where the oil industry has had price changes that you do find those things going in that manner. You mentioned about the price going up around the traffic circle. I know that it is not a one-way street. That prices also act to the disadvantage of the oil company as I have seen the bottom of the prices drop out.

The CHAIRMAN. I have for 2 or 3 days myself.

Mr. KEELER. You say from an overall standpoint how can we be justified on June 15. There is no magic about June 15. I can tell you there is not anything magic about it. We tried to make a crude rise to establish what we considered equity with rising costs back there in 1948. That did not stick. This rise as I have told you operates on two bases. What we consider a demand that is facing us down the road, and if we are to continue to grow and operate, we have to find the crudes. We think this will be an incentive to do that.

Above that, and it is just going part way down that way, we are recovering some of our additional costs. From the standpoint of economics, you talked about the tremendous increase in the money that we have made, and I challenge that. I missed, I think, the point that Mr. Pelly had asked me about this morning. I think I missed the significance of his remarks possibly. The stockholders' equity as far as the company is concerned is not the whole story. You cannot stack up profits on that basis. If you as an individual go out and borrow money from a bank and yet you have some money already, you are going to expect to make profit off both the money you borrow and the money you have to put into a business. By the same token, the Phillips Petroleum Co. is indebted to approximately, I believe, $300 million, which is a sizable amount of money. From the standpoint of the economics of the operation of Phillips Petroleum Co., we have, along with others, faced a reduced income in 1952 over 1951. Our first-quarter statement of this year 1953, shows a further reduction. These added costs certainly have a part in that. When we compare ourselves with some of these other companies, and we see, as has been pointed out this morning by Mr. Bennett, who questioned the fact that we were not recovering our costs and how could we go having this cushion, it is interesting to me to see that in 1950 our percent earnings

on total assets at the end of the year were 7.73 percent earned on total assets.

In 1951, they were 9.45 percent. In 1952 they were 8.16 percent. General Motors—and I am not here to say that they are making an unreasonable profit—made 24.2 percent in 1950, in 1951, on the same basis, 13.95 percent, and in 1952, 13.9 percent. General Electric in 1950, 13.6; 1951, 9.5; 1952, 9.7 Du Pont, 1950, 15.6; 1951, 10.2; 1952, 9.5.

I do not think that from the standpoint of the economic justification, and I am afraid from the results of this testimony that our position in getting our stockpile of materials has not gotten across, and is not understood, but even if it is not, and it is a real thing and a thing that you gentlemen should be aware of—a lot of you on the east coast know the problems when you do not have enough fuel at the proper times in winter, we have seen those fluctuations, and we do not want our national economy in a wreck like that—but if you do not place any emphasis on that, although we do, then I think you can certainly say, and the American people would say, that we were justified with rising costs, because our earnings are not exorbitant, and are below a lot of increases where they have taken increases as they have gone on each year——

The CHAIRMAN. I agree with you that your statement if you have rising cost, the general public, if that was taken alone, would take a reasonable attitude to your increase. But what the public does not know is to the extent that the Government is assisting you and making it possible for you to have profits by the 27½-percent depletion and by the fact you are permitted, as I understand it, to include in your your operating income each year some of the cost of the development of your wells, rather than placing them as an increase of capital.

When I look at the assets of your company that have increased since 1943 from $281 million to $922 million, and assume that the majority of it has come out of earnings——

Mr. KEELER. That has not been true.

The CHAIRMAN. I asked you this morning as to how much had come out of earnings, and how much had come otherwise, and you were not able to give the figures. That is what I am waiting to hear because it has a very great significance in my mind, because you figure your percentage of earnings as 7.8 percent on the basis of your assets.

If your assets represent earnings, certainly the public has an interest in knowing that when you had made it as a result to a large extent of the help that has come through the Government sustaining you in the ways in which I have mentioned.

Mr. KEELER. I believe I answered you this morning that approximately 50 percent of our net earnings have gone back into the business. I beg your pardon. The figure is 55 percent.

The CHAIRMAN. Very well.

Mr. KEELER. Are you posing a different question? I may not have answered the question that you were asking me.

The CHAIRMAN. You figured your 7.8 percent on the basis of what?

Mr. KEELER. On the basis of total assets.

The CHAIRMAN. And those total assets include how much of the earnings put back into the business? There is a difference between figuring on money that went in as a result of earnings and money which was invested.

Mr. KEELER. Let me see if I cannot find that out.

Mr. PELLY. The net worth has gone up about $400 million in 10 years.

Mr. KEELER. Our total net earnings for that period were approximately $400 million.

Mr. BEAL. The total earnings for the 10-year period are a little over $400 million, and the total increase in capital assets during the period is $642 million. So if we put approximately half of the earnings back in, that means you only get $220 million out of the $435 million, so that means over $400 million of new investment.

The CHAIRMAN. What I am interested in learning from the standpoint of the public is whether the 25 cents a barrel is really so necessary as you would make it appear on the surface as meeting extra costs. There is more to it than that in my opinion.

Mr. KEELER. No. I told you this morning that does not add out to meet the extra costs that we have suffered here. I believe I gave you this morning an estimate that it would be around a dollar and a quarter a barrel.

The CHAIRMAN. Are there any other questions of Mr. Keeler?

Mr. HARRIS. Mr. Chairman.

The CHAIRMAN. Mr. Harris.

Mr. HARRIS. Mr. Keeler, in the first place, you are the vice president and assistant to the executive vice president of your company?

Mr. KEELER. No. I am vice president of the company.

Mr. HARRIS. You are the vice president of the company?

Mr. KEELER. Yes. We had an organizational change in our company following our last stockholders' meeting. In connection with that, Mr. Adams, the chairman of the board, and Mr. Endicott, our president, and Mr. Learned, who was executive vice president, and assistant to the president, had his title changed to chairman of our executive committee, and assistant to the president. Then since there was no longer an executive vice president, I am a floating vice president. I am not just sure what that signifies. My principal interest is in connection with manufacturing.

Mr. HARRIS. With manufacturing?

Mr. KEELER. With manufacturing in the chemical business and with the refining work.

Mr. HARRIS. How long have you been with the Phillips Co.?

Mr. KEELER. I have been with them 25 years.

Mr. HARRIS. How long have you been actively engaged in the oil business?

Mr. KEELER. I want to make a correction to that. There was 1 year of that 25 that I was on loan to the Petroleum Administration for Defense, as Director of Refining.

Mr. HARRIS. How long have you been in the oil business?

Mr. KEELER. 25 years.

Mr. HARRIS. In other words, you started with the Phillips Petroleum Co.?

Mr. KEELER. Yes, sir.

Mr. HARRIS. Is the Phillips Petroleum Co. as an industry in this country any different than any other company in the oil industry?

Mr. KEELER. We think there is a tremendous difference between Phillips Petroleum Co., and any other oil company in the business.

Mr. HARRIS. I admire you for your stamina and your determination as being the best and the most progressive and outstanding company in the industry. I am sure you will find these other companies will say the same thing about themselves. That is what makes a very stable and healthy and highly competitive industry, is it not?

Mr. KEELER. Yes; I think that is right. I think you are correct.

The CHAIRMAN. Would you yield for one statement?

Mr. HARRIS. Yes.

The CHAIRMAN. I wanted to say to the gentleman that I think there is some justification for him taking pride, because so far as I know, I think the Phillips Co. is probably the only oil company that really takes care of its shareholders so far as creating a reserve to take care of the accelerated depreciation allowances that are allowed at the present time. What you charge in 5 years, you set up over a period of 20, do you not, in the reserve fund, for the benefit of stockholders?

Mr. KEELER. We are trying to take care of our stockholders, Mr. Chairman.

The CHAIRMAN. Do you not do that?

Mr. KEELER. We think we do. We are looking out after the interest of the stockholders. It is a selfish thing, but it is a survival of the business.

The CHAIRMAN. I did not want you to think that I did not see some good things in Phillips.

Mr. KEELER. I thank you, sir. I appreciate that.

Mr. HARRIS. The point is that you operate under the same principles inherent in our American system as does Standard Oil and all other oil companies.

Mr. KEELER. Yes, sir.

Mr. HARRIS. You operate under the same laws and provisions permitted in the operation of industry as all other industry.

Mr. KEELER. Yes.

Mr. HARRIS. Is that right?

Mr. KEELER. So far as I know, it is.

Mr. HARRIS. The oil industry has had a very progressive growth in the last 25 years, has it not?

Mr. KEELER. Yes; it has.

Mr. HARRIS. Can you think of any other industry that has had the growth in order to meet the public demand during these 25 years that the oil industry has had?

Mr. KEELER. No; I do not know of any other industry that has faced the magnitude of the problem that we have had.

Mr. HARRIS. And particularly from the standpoint of expansion in order to provide the demands of the consumers.

Mr. KEELER. Yes, sir.

Mr. HARRIS. In order to do this, it is necessary that you have, as you have built up in the oil industry, a very sound, healthy, and stable business. What is the production of oil in the United States at this time? I am speaking of crude oil.

Mr. KEELER. Yes, sir; I know what you are speaking of. I have it here. I thought I had it here.

Mr. HARRIS. It is a little more than 6 million barrels a day.

Mr. KEELER. Yes; I think it is 6.3 million, but I do not have it here in front of me.

Mr. HARRIS. What was the average daily production of crude oil in 1940?

Mr. KEELER. In 1940, it was around 5 million barrels.

Mr. HARRIS. I think you better take another look at your record, Mr. Keeler.

Mr. KEELER. Do you have those figures. I think he has the table I am looking for. I am trying to add and subtract here, and divide, to get an answer for you.

Mr. BEAL. Here is the table.

Mr. KEELER. Yes. I did not have the right table in front of me. In 1940, we had 3,697,000 barrels a day in the United States.

Mr. HARRIS. In other words, you have had an expansion of oil production in this country from 1940 to 1953 from 3,600,000 barrels per day to 6 million plus per day, is that right?

Mr. KEELER. That is correct, about 6 million now, pretty close to 6,400,000 barrels.

Mr. HARRIS. In other words, the consumer demand in this country has increased more than 100 percent during this period of time.

Mr. KEELER. Yes, sir.

Mr. HARRIS. And the oil industry has met that demand, has it not?

Mr. KEELER. To the best of my knowledge. Due to dislocation of transportation, there have been a few shortages, but by and large we have met that.

Mr. HARRIS. Has there been such an experience with reference to shortages other than 1947 and immediately following the war insofar as you know?

Mr. KEELER. No; I do not know of any.

Mr. HARRIS. And was not that at a time when the transportation difficulties were largely responsible for the shortages?

Mr. KEELER. Yes; I think that is right.

Mr. HARRIS. And there was a great demand, of course, at that time that something be done about it, and that the Federal Government get in on the oil industry, is that not true?

Mr. KEELER. That is very true.

Mr. HARRIS. But yet the oil industry because of the demand made on it by the public has provided the oil products that the public has need of.

Mr. KEELER. Yes, sir.

Mr. HARRIS. Is that true?

Mr. KEELER. That is true.

Mr. HARRIS. Now, is that true with reference to some of the other large basic industries of this country?

Mr. KEELER. To the best of my knowledge it is not. They have not had that same sort of problem.

Mr. HARRIS. Is it not true that the people in the oil industry have looked forward from year to year to the demands that will be made by the public in an effort to try to meet these demands?

Mr. KEELER. Yes; that is definitely true. They look further ahead than just year to year.

Mr. HARRIS. In fact, you look forward to several years in advance.

Mr. KEELER. That is right.

Mr. HARRIS. Do you recall some 20 years ago when there were representations in this country that we were going to run out of oil and oil reserves each year?

Mr. KEELER. Yes. I can remember particularly in 1926 when I was trying to think of which industry to go into that I was discouraged because oil was going to run out. But it has not been that way. We have managed to build increasing reserves.

Mr. HARRIS. Other than during the so-called depression days——

Mr. KEELER. We had two periods, really, where we have not kept pace with discoveries. Up to 1952, we had only 2 periods in the oil industry as far as I know that we have not kept pace as far as discoveries are concerned with production requirements, which is the major demand. That was back there during the depression in the thirties when we did not have the incentive that we are just talking about here today, and the other was back in 1945, when the steel shortage did not permit us to get the job done.

Mr. HARRIS. In other words, you did not have the materials to continue this dynamic exploratory program.

Mr. KEELER. That is right.

Mr. HARRIS. Even so, during the last 12 years, and recognizing this 2- or 3-year period in there when you did not have materials, is it not true that the oil industry has added to the reserves substantially above each year the amount that they have had plus the consumption of that year?

Mr. KEELER. Yes; we have.

Mr. HARRIS. And is it not true that the oil industry to meet these future needs has had had annual increase in reserves looking forward to the future in order to meet the demands of the public?

Mr. KEELER. That is right.

Mr. HARRIS. Now, with reference to your own industry, you have had a remarkable growth during these last 10 years, as you have explained here. Did I understand you to say that you were a crude seller?

Mr. KEELER. A crude seller?

Mr. HARRIS. In balance.

Mr. KEELER. No.

Mr. HARRIS. Not now, but you were years ago.

Mr. KEELER. Years ago, we were; yes.

Mr. HARRIS. Will you explain what it means to be a crude seller in balance or a crude buyer in balance?

Mr. KEELER. There may be more than one definition of that. I am using my own words here. I will define my position by saying that a crude seller in balance means to me that you have more crude than you are refining, which was our case a few years ago. Therefore, the net effect is that you are a seller. The reverse of that would be if your refining operations—and we are by the same definition a crude buyer, since we are running more crude to our refineries than we produce.

Mr. HARRIS. For integrated companies, such as yourself, it is the most desirable position to have the balance, is it not, that is, of production and refining?

Mr. KEELER. Yes, it would be an ideal situation.

Mr. HARRIS. But you have become now a company in which you refine more products which you sell to the public, that is, more oil, than you produce?

Mr. KEELER. That is right.

Mr. HARRIS. What is the excess percentagewise?

Mr. KEELER. It is about 50–50 or pretty close to it.

Mr. HARRIS. How many refineries do you have?

Mr. KEELER. We have seven.

Mr. HARRIS. When a company is in the refining business, they have got to have crude oil in order to keep that business going.

Mr. KEELER. Excuse me; that is in the United States.

Mr. HARRIS. You have some outside of the United States?

Mr. KEELER. We have a small refining operation in Venezuela.

Mr. HARRIS. Did you get my question?

Mr. KEELER. No. I am sorry.

Mr. HARRIS. I said when a company is in the refining business, it must and has to buy its oil.

Mr. KEELER. Yes.

Mr. HARRIS. And you must have a source of supply.

Mr. KEELER. That is right.

Mr. HARRIS. That is true with any product in this country; is it not?

Mr. KEELER. Yes.

Mr. HARRIS. Whether it is in the oil business or some other business.

Mr. KEELER. That is right. You have to have your raw materials for manufacture.

Mr. HARRIS. And the problem of that industry which manufactures or processes is to obtain the material by which it may manufacture and process the product for the public.

Mr. KEELER. That is right.

Mr. HARRIS. In purchasing this product from the supply is where the competitive element is found; is it not?

Mr. KEELER. It is.

Mr. HARRIS. You are expanding, and you are rapidly expanding, and that is well known throughout the oil industry as well as most people who are fairly well advised regarding such operations in the country. The fact that you are a sound and healthy expanding company, and that you must purchase additional crude for your refining operations, the fact that you post an increased price of 25 cents means that you are going to get some other sources of supply since you need that oil and since there are people that have it to sell?

Mr. KEELER. That happened before.

Mr. HARRIS. That happened before?

Mr. KEELER. Yes. We got some very good connections out of that.

Mr. HARRIS. That being true—and no doubt there were certain connections that you were trying to make with crude suppliers—if some initiative had not been taken by the other companies in connection with the overall problem, is not the result that they may have lost some of their crude suppliers?

Mr. KEELER. That occurred before.

Mr. HARRIS. That is not any different from any other industry operation in this country, steel or anything else; is it?

Mr. KEELER. No; I would not think so.

Mr. HARRIS. Is that true or not?

Mr. KEELER. I think that is true.

Mr. HARRIS. If you go to the grocery store and buy sugar and you get sugar at the same price in most every grocery store that you go into.

Mr. KEELER. Yes. I think that would adjust itself pretty quickly.

Mr. HARRIS. Pardon?

Mr. KEELER. I think that adjusts itself pretty quickly. If one goes up or down, the sugar goes up and down in every grocery store.

Mr. HARRIS. You go in every place that you want to in Washington and you get cigarettes at the same price regardless of whether they are Camels or Lucky Strikes, or something else. Is that not true?

Mr. KEELER. Yes; I think that is true.

Mr. HARRIS. What?

Mr. KEELER. I do not smoke. So before you get me out on that limb, I better tell you that I do not smoke.

Mr. HARRIS. You drink Coca-Cola?

Mr. KEELER. Yes.

Mr. HARRIS. Do you pay any different price for Coca-Cola at one place than you do another?

Mr. KEELER. I tell you about that Coca-Cola.

Mr. HARRIS. Except at ball games.

Mr. KEELER. I think the price is pretty uniform. But there are a few of these places where I did not have any business being in the first place where they charge a little extra. But to answer your question, I think Coca-Cola has a uniform price in Washington.

Mr. HARRIS. I am not trying to be facetious about it. I am trying to point up some of the things that were brought to our attention here, and I would like to know about them myself. Frankly, as to the economics, I am not an economist myself, and do not claim to be. I never studied too much of it, and practiced less.

Mr. KEELER. Until Chairman Wolverton interrogated me about this depletion I do not think that so many people would have known how little I am versed in that either.

Mr. HARRIS. From your answers and expressions here today—and I was not in it at all—I think I know about depletion less than you have expressed here, and I know you must know a lot about it. It seems to me that the law provides 27½ percent depletion and your company takes that 27½ percent depletion on crude production.

Mr. KEELER. They do.

Mr. HARRIS. And it does not apply to any other phase of your activity, does it, refining or anything else?

Mr. KEELER. Yes.

Mr. HARRIS. I know so little about accounting myself, but I do know enough about it that in your accounting you do not take 27½ percent depletion on your books on anything except the crude production.

Mr. KEELER. That is right.

Mr. BENNETT. Will the gentleman yield?

Mr. HARRIS. Yes.

Mr. BENNETT. Since the gentleman is an expert on the 27½-percent depletion allowance, will he take the time to explain to some of the members of the committee who do not know how that operates?

Mr. HARRIS. I never operated any law companies in my life, but I do know when the law provides 27½-percent depletion on a barrel of crude oil, you take that 27½ percent on your income-tax report, like you do any exemption on a dependent of your family.

Mr. BENNETT. For example, if I had an oil well that produced 100 barrels of oil in a year, the 27½ percent of those barrels would be

chargeable to my production or would not be considered a part of my production for tax purposes?

Mr. HARRIS. You would sell that 100 barrels of crude oil. The price that you received for it, you can take 27½ percent of that as depletion for income-tax-deduction purposes.

Mr. BENNETT. So instead of your income being 100 percent of the price at 100 barrels, it would be 100 percent less the 27½ percent?

Mr. HARRIS. Insofar as income-tax purposes are concerned, yes, as I understand it.

Mr. HARRIS. What was the thing that I wanted to inquire about insofar as depletion provisions are concerned? Depletion was started away back about 1919, originally.

Mr. KEELER. I could not give you the history on that.

Mr. HARRIS. It has been brought up through these years as a policy for one purpose and one purpose only, and that is to do precisely what has been done, and that is to bring about an exploratory program that would provide the reserves to meet the public demand and that has inured to the benefit of our national defense and public welfare, as well as the overall economy, has it not?

Mr. KEELER. I think it has.

Mr. HARRIS. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Heselton.

Mr. HESELTON. In listening to your testimony, as I gather it, your concern and the concern of those who made this increase was largely as to the availability of crude oil in the future, inside this country, rather than outside.

Mr. KEELER. Yes; that is right.

Mr. HESELTON. A good deal of the crude that you produce and that you purchase comes from Texas, Oklahoma, and the Southwestern part of our country.

Mr. KEELER. Yes, sir.

Mr. HESELTON. Each of those States, if I understand correctly, are members of the so-called Interstate Oil Compact, and in each of those States there are local laws with reference to allowables.

Mr. KEELER. Yes.

Mr. HESELTON. Your company, along with other companies, meets regularly with the local agencies and gives your best estimates as to what the demand will be for periods in advance; is that right?

Mr. KEELER. Yes.

Mr. HESELTON. Then the commissions or agencies in charge of the program set the schedule of allowables for the next month; is that right?

Mr. KEELER. Yes.

Mr. HESELTON. The Texas commission in particular—and I do not know very much about these commissions—did not the Texas commission in the last few months, say up to the last 2 months, successively reduce the allowables in Texas?

Mr. KEELER. I believe a review of that situation indicates that the Texas Railroad Commission has really increased allowables, the last 4 months since April, May, and so on.

Mr. HESELTON. But I want to go back, if you will, to the latter part of the year, the last few months of the year and the first few months of this year. Were there not successive monthly reductions in allowables by the Texas commission during that period?

Mr. KEELER. You say were there?

Mr. HESELTON. Were there not?

Mr. KEELER. I believe there were.

Mr. HESELTON. I am asking you about the others because I do not know. Was that true in other States that have these proration laws?

Mr. KEELER. There has been some reduction in Kansas, and there has been some reduction in Oklahoma, and I think there has been a little bit of reduction in Louisiana.

Mr. HESELTON. Is it not a fact that the actions taken by the State commissions under their proration laws actually have diminished the supply available to your company and to all other purchasers of crude oil in that area?

Mr. KEELER. Well, that was my trouble this morning when I was talking about the shortages. In connection with the Sprayberry field, we lost production. We were shut in. But I could not say that we were short since we were able to find it or buy it.

Mr. HESELTON. That of course was a proper matter related to conservation, as far as I know, because even your company is still contesting it on some other principle, but what I am talking about is something unrelated to conservation. It seems obvious to many people, very sincere people, that it is nothing more nor less than a device in order to keep the amount available as close to or below the estimated demand and consequently to stabilize the price and have other economic advantages.

I realize you won't agree with that but I want to put that in the record, because I do sincerely feel that way and a witness before this committee last week seriously and sincerely urged that we take steps to repeal the Interstate Compact Commission and also the Connally Hot Oil Act.

I want to conclude this by a quotation, and I would like to ask you to comment on that. The quotation is as follows:

> The institution of proration has thus modified the mechanism whereby supply and demand are equated. Formerly regulated by price alone, supply is now restricted at the wellhead by proration which therefore acts as a substitute for prices at this point in the system.

Would you care to comment on that?

Mr. KEELER. I haven't felt that to be the case.

Mr. HESELTON. Well, the person who made that statement was the Chase National Bank economist, Mr. Joe Pogue, and he was described as one of the oil industry's best friends.

Mr. KEELER. I am not saying that it could not act in that manner, but as far as I can see it has not. Now, maybe that is true.

Mr. HESELTON. If the Texas commission and the other commissions would increase the allowables, at least talking as of now, talking as of the June 15 price increase that your company instituted, do you think that you would have instituted that price increase?

Mr. KEELER. I did not get that; there was some noise back here.

Mr. HESELTON. If the Texas commission had allowed the production at the highest rate in the history of oil production since the compact had been in effect, do you think that your company on June 15 last would have instituted this increase?

Mr. KEELER. If the Texas Railroad Commission had, we will say, doubled the allowable or at least let them run wide open on any kind

of a basis, just to take a case, I don't think that that in one way or another begins to correct the problem that is one of the fundamental problems that Phillips Petroleum Co. and the industry both have, particularly Phillips, and that is the problem of developing discoveries.

Now if they had opened up like I have said there for the full days, I don't know what the economic effect would be, but I suppose it would go in the direction of going down. But I am not sure that it wouldn't be a waste which is also fundamental, that the Texas Railroad Commission, its very heart of their program, is conservation. There is one thing on that, that if you will just permit me, and I won't take but a moment here, but in connection with this conversation when we were discussing it this morning, some of you may not understand why we have objected to the situation that existed in connection with Sprayberry. But the situation is this: That the district court enjoined the order there of the Texas Railroad Commission and I may not be using the proper language to describe this for any lawyers who may be present, but the net result is this:

The action of that court was such that our competitors could drain our underground reserves. Now, we aren't basically fighting or bucking or doing anything against conservation, we believe in it, but certainly we don't believe and we will fight and we will buck when a court or any institution sets it up so that our competitors can drain the reserves that we have underground.

Now, that was what was the real crux of our problem, and I suppose you know that but there were some on the committee that I am not sure understood what our problem was.

Mr. HESELTON. I will go one step further in connection with this problem of the setting up of allowables under the State agencies.

I have before me a tabulation from sources in the Bureau of Mines and the API, of Texas crude production and allowables from October of last year through June of this year. May is a preliminary figure and June is an estimate, and in each instance, every month, the production is below allowables.

Now, having in mind the contention that the allowables are on a conservation basis, with a maximum efficiency production or whatever the phrase is that they use, I will just read off the minus figures, and ask that this table may be inserted in the record, Mr. Chairman.

October, 299,000; November, 412,000; December, 303,000; January, 277,000; February, 317,000; and March, 253,000; April, 132,000; May, 178,000; and June, 219,000.

Now, I don't know how much of that is attributable to your company's operations, but it does occur to me that all of this emphasis on the incentive to create new sources has a rather hollow sound at least in the minds of those who do not know the problems as you know them, but do know what is confronting the people that are being asked to foot this bill, when we find that not only have the allowables been reduced successively to a point of almost ridiculous size, and they don't have any relation to costs, but on top of that the production is not up to the allowables in Texas, and I dare say elsewhere.

I am simply offering that because there are other facts and there are going to be other factors that the public has in mind, but I do not think a very good case has been made as yet for the increase.

Mr. KEELER. I have done my best, Mr. Heselton, and I am sorry that I won't be able to speak for the Texas Railroad Commission. I assume that you will want to talk to them.

The CHAIRMAN. I have no doubt that General Thompson will be here to speak for himself before we finish these hearings, and if he is not it will be the first time he has not appeared.

Mr. KEELER. I think that you will find him very able.

Mr. HARRIS. In order that the record may show here the problem the gentleman mentioned with respect to the production not being up to the allowables, you have production in Texas, do you not?

Mr. KEELER. Yes, sir.

Mr. HARRIS. Is it not true that there are allowables set in each field, and for each well that produces in the State of Texas?

Mr. KEELER. Yes, sir.

Mr. HARRIS. There is a production in the State of Texas of more than 3 million barrels or approximately 3 million barrels, daily production.

Mr. KEELER. I think that that is probably right, in the neighborhood of that.

Mr. HARRIS. And how many wells, could you tell us approximately how many wells there are in the State of Texas?

Mr. KEELER. No, I am afraid I could not.

Mr. HARRIS. There are several hundred thousands; are there not?

The CHAIRMAN. Is there anybody from Texas who can answer that question?

Mr. HARRIS. It makes little difference so far as the explanation is concerned.

Mr. KEELER. I am sure that you are right, that there are several thousand, but I would not know exactly.

Mr. HARRIS. Now, is it not true that you will find hundreds of these wells that are having to close down maybe for a day or 2 days, or a week?

Mr. KEELER. Yes.

Mr. HARRIS. Because of production difficulties, and equipment and so forth and so on?

Mr. KEELER. Yes, sir.

Mr. HARRIS. Each day that a well is closed down, it loses that much production to the total of the allowable of that State, is that not true?

Mr. KEELER. That is right.

Mr. HARRIS. And no well is allowed to produce more than the allowable, and so consequently you are bound to get a production that is below the total allowable within the area?

Mr. KEELER. You are bound to get a figure below the productive capacity, and now I am not sure that I understood you correctly.

Mr. HARRIS. You have got so many wells in the State and each well is given allowable per day production and you have got so many wells that are closed down, maybe a day or longer during that month. Now, if the allowable is so much to all of the wells, and some of them are closed down, then the total production has got to be below the total allowable, has it not?

Mr. KEELER. If some of them are closed down, that is right.

The CHAIRMAN. Of course you may have a larger amount in reserves at the present time than we have ever had before.

Mr. HARRIS. It is a very healthy thing.

Mr. KEELER. We would like to see the figure still larger.

Mr. HESELTON. Was there any reason for not selecting 1940 as the starting point for the comparison with steel, and some of these other basic articles?

Mr. KEELER. One of the principal problems that has faced us is that 1947 was the last year that we had a crude price increase, I believe that was on December 1947.

Now, since that time these various costs have gone up, steel and these other commodities, and we haven't had similar increases. We make a little, niggardly, less than 10-percent increase, and it is looked on apparently in some quarters with disfavor.

Mr. HESELTON. However, if you went back to 1940 or 1939, it would be quite a different picture that you have on figures. If you are talking about oil and you are talking about steel and you are talking about a good many other things. Oil was $1 a barrel, was it not, in 1939?

Mr. KEELER. If you go back far enough it was less than that. In 1939 the Mid-Continent-Oklahoma-Kansas 36.9 gravity oil was $1.02. The west Texas oil, which apparently did not have an outlet but is very low gravity, 39 gravity, was 75 cents. The east Texas was $1.10.

Mr. HESELTON. Let us take from 75 cents to $1.10. Then in 1940 and the end of 1945 it went to $1.25 and in 1948 it went up to $2.65, and now with this last increase it is up to $2.90. Is that right?

Mr. KEELER. It depends on which crude you are speaking of again, as far as the crude and what the gravity is.

Mr. HESELTON. That is all, Mr. Chairman.

By the way, what is 36 gravity oil now?

Mr. KEELER. On the west Texas, 36 gravity oil—I don't have that figure. I have got 36 gravity Mid-Continent oil. I can use that, it has gone up to $2.82.

The CHAIRMAN. Mr. Keeler, this will conclude so far as I am concerned, your examination; I noted in your testimony this afternoon that you do have Venezuelan holdings. Has there been any increase in the price of oil per barrel produced in Venezuela?

Mr. KEELER. I couldn't tell you what that situation is, but on our own particular crude it is sold to others and the particular contract is based on east Texas crude prices. So that will escalate.

The CHAIRMAN. In your opinion will the price of Venezuelan crude go up?

Mr. KEELER. I would think that if other contracts where purchasers are involved are set up on the same basis, it certainly would. But I don't know a whole lot about that South American crude market.

The CHAIRMAN. Is there any likelihood of the price being increased on the oil that comes from the Near East?

Mr. KEELER. That is a hard one to answer. That gets into this world crude supply picture and we have had differentials of Middle East crude delivered into the United States and the price of American crude before. So I do not know that that will happen. There are some of the crudes that have been sold, it seems to me, that probably the tanker situation would be a more pertinent factor to arrive at that situation of what will develop.

The CHAIRMAN. Of course the tanker situation at the present time is such that it would be inducive, would it not, to buy oil from the East?

Mr. KEELER. Yes; tanker rates are off, that is right.

The CHAIRMAN. Considerably off, are they not?

Mr. KEELER. Yes, and now I want to make one point here, that where a refiner is set up to process oil, that it is not quite so simple just to reach out and grab any oil that is available. Some of these foreign oils aren't as attractive, regardless of what the price is, they aren't as attractive as they appear probably on the surface, regardless of what the tanker rates are. Some of the refineries in the United States, I know, for instance, cannot run certain of these Middle East crudes because of their high sulfur content and they don't have the facilities for handling that kind of oil. In the same way, some of the refineries cannot take on some of the heavier crudes that are produced in Venezuela. So it is not quite as simple or it is not really a simple problem to say what that effect is going to be. It will have to be studied with a view to the refining situation.

The CHAIRMAN. What was the basic reason then for the opposition to the proposed legislation that would cut off importations?

Mr. KEELER. I beg your pardon?

The CHAIRMAN. What then was the basic reason on the part of the major oil companies to cutting off importations of foreign oil?

Mr. KEELER. I couldn't tell you, we are neutral on that, and I don't know what the major oil companies had in mind.

The CHAIRMAN. I am interested in this foreign situation from the standpoint of the Near East particularly because I would assume that if the price goes up there, it will mean additional expenses to the Mutual Security Administration program which means additional expense to citizens of our Nation. So I am interested very much in what the effect will be in the event the price goes up of Near East oil.

Are there any other questions?

Mr. YOUNGER. I only have one question. I was wondering if there was any advantage to a company that was integrated in the price over a company that just produces crude only. In other words, here is a company that produces crude and sells it at a certain price. He has no refinery and he has no advantage in any of the refinery processes, and which of the companies has an advantage in the production cost, if there is any advantage.

Mr. KEELER. Well, if the producer is only producing oil and has no refining, he automatically is going to get an additional 25 cents a barrel, if we are talking about this crude price, for each barrel he produces. There are adjustments that we have mentioned here on these. Whereas a refiner has a different situation because when he purchases for an additional 25 cents, that crude, he does not know whether he is going to get that, or whether he is going to recover any or all part of that product price.

When we raised the price of crude in 1948, there was no corresponding change in the market price of products. Now, there was that disparity. If the market had gone up some or the expenses had gone down, we might have stayed with that 35 cents. I don't know whether I have answered your question or not.

Mr. YOUNGER. I would judge from your answer that the advantage, if there is any, is with the company that solely produces.

Mr. KEELER. It is with the company that is going to be in the producing business drilling these wells; the incentive is tied back that way.

Now, there is an indirect advantage to a refiner, that suppose a refiner takes a position, "Well, I do not want the price of crude raised." If he takes that position and on down the road he cannot find crude because we have all been idle at the switch here and we do not increase our reserves proportionately to our demand, our rising demand, that refiner may well pay more for crude on down the road than he would if if went ahead on this basis. Of course, the other thing may be that he may end up recovering from products, from the rise in product prices, and he may recover and there won't be any penalty to him. Depending upon his position, whether he is a crude producer or not, it would depend upon whether he would make any money by the crude rise.

I think it is pretty hard to answer it in a generalization.

Mr. YOUNGER. The integrated company gets no benefit possibly by taking some loss probably in its refinery, that it can offset the profit in its production, as against a man or against a company that produces only.

Mr. KEELER. That could be, and it would depend upon the production rate in regard to the refining rate. Now, I haven't said, or meant to say, that a refiner won't break even, if he had no production, because he can. If the market will bear the increase on products, he can do that. Then he recovers and it is possible that I can recover and break completely. In an integrated operation where you have production and refining, then both sides of it have to be looked at.

Mr. YOUNGER. Then the conclusion is that, so far as you are concerned in your company, there was no advantage at all in the increase in the price of the crude other than the long-term viewpoint.

Mr. KEELER. Well, the long-term viewpoint was the principal thing. Now, I was asked today how much money we were going to make out of this. And I said that we expected, and this is a conjecture, that we conjectured that we might make $2,800,000 a year.

Mr. YOUNGER. More, that is?

Mr. KEELER. Yes, more, after the plus and minus to the crude production are taken into consideration, and our guessing where the markets will end up. Now, Mr. Heselton just told me here today, the first I had heard of it, that there was a dropoff in kerosene price. That dropoff may affect, or may be far reaching, in a lot of areas. That $2,800,000 that I told you about may not be there. It may not be there. We may not as an integrated company recover anything. It is just hard to tell at this point.

Mr. YOUNGER. But you did have it in mind.

Mr. KEELER. Certainly, if we are going to build our long-range picture we certainly cannot lose that way.

Mr. YOUNGER. I am not asking for an explanation nor an apology at all; I am just asking you what you had in mind. I don't think it is anything to apologize for. We are in a profitmaking world, you know, and I don't think it is anything to apologize for but I wanted to know if it was a fact.

Mr. KEELER. I agree with it.

Mr. PELLY. Mr. Keeler, as I understand, on June 15 you posted a price of 25 cents a barrel. That meant on the 142,000 barrels a day that I believe you buy you paid out that much more money under the contracts that you have to purchase crude oil; is that right?

Mr. KEELER. You said 142,000 barrels.

Mr. PELLY. Was that not the figure you mentioned?

Mr. KEELER. No, I said 114,000.

Mr. PELLY. I understood that you yourself produced 126,000.

Mr. KEELER. That really wasn't true, just what you said, for this reason: That we posted the price where we purchased oil in Texas, Oklahoma, Kansas, and New Mexico, and we posted a price of 25 cents a barrel. In some of the areas, that was in those States, but in some of the other areas, for instance I mentioned in Montana, at one place we might buy the crude we purchase from a particular field, we buy that for 5½ cents additional, and that is not 25 cents but 5½ cents.

Mr. PELLY. Is that due to an existing contract, or is it due to competitive conditions in this field?

Mr. KEELER. No; it isn't a contract to purchase. The way those things are worked out, you never know when you are going to have your connections and when you aren't. There are very few long-term connections. That is connections that you can depend upon. You may have a connection today, and somebody come in and take it away from you tomorrow.

Mr. PELLY. You have no long-term contracts to buy oil?

Mr. KEELER. We have some.

Mr. PELLY. Are they at a fixed price, those that you have, or did you raise that 25 cents?

Mr. KEELER. I am under the impression that the particular long-term contracts that we have taken into account that if there was a crude price increase that that new price would become effective. In this particular situation that I mentioned out there in Montana, it was a question of the worth of the crude.

That crude had developed a higher value as a result of competition from, originally, Canada. I believe that is the history of it. And later, it became, or that particular demand for the crude dropped off, with the development of Canadian oil. But the price didn't go down.

Mr. PELLY. Generally speaking, though, you pay 25 cents a barrel more for what you buy?

Mr. KEELER. Yes.

Mr. PELLY. And you have your own production which you don't pay any more for, it is just coming out of the ground, and you have your own wells.

Mr. KEELER. Yes, sir.

Mr. PELLY. How much did you raise your selling price on the products, and we know that you have 114,000 on which you pay an average price of 25 cents more a day, and how do you get at that $2 million or more a year?

Mr. KEELER. I don't have that study in front of me, right now. But I did give you some pricing, and our products go to several areas, and those prices are fluctuating but estimates were made or our estimates were made on the basis of price differentials that appeared to be establishing, and whether or not they will hold, Mr. Heselton is kind of changing my mind about that, but for instance in group 3 in the

Middle West area there is a cent a gallon on house brand. On burning oil it is half a cent. And on residual it is about four-tenths of a cent.

Mr. PELLY. You have 7 refineries in this country and right down the line on June 15 did you post increased prices on the sales of the products, the end products?

Mr. KEELER. No. We haven't, and in all of the areas we haven't had price increases on all of the products. Now, we anticipate that there may be in some areas where the price has not raised that there will eventually be an adjustment. We are anticipating this, and conjecturing on it and hoping that it will happen.

Mr. PELLY. Well, it is a pretty rough guess, then, that $2 million income figure?

Mr. KEELER. Yes; I said that that was a conjecture because it is pretty hard on these market things to tell where you are going to end up.

Mr. PELLY. Is it not true that actually your Montana purchases are just a drop in the bucket?

Mr. KEELER. Our Montana purchases, I don't know what you mean by a drop in the bucket.

Mr. PELLY. Compared with your total of the 114,000 barrels a day, your Montana purchases are just a small, a very small portion?

Mr. KEELER. At the present time, we are supplying two refineries with crude from those sources and I would not call it a drop in the bucket. I think it is a pretty good little operation.

Mr. PELLY. I do not want to lengthen the time here, but I would like to go back for just a moment, if you would permit, Mr. Chairman.

I think you have, since lunch, come back with a statement that we were discussing before on the basis of your gross assets, and your total assets. Now, your depletion and your amortization and your depreciation amount almost to the amount of your total profits. They are about $72 million a year, against your $75 million a year profit last year. Now, those are things that replace those assets, and actually I think that I am correct in saying that we figure profits on the equity of the stockholders.

Mr. KEELER. I maintain that that is not sound and I don't think that you would do that personally. You would not do it if you were in business, and if you wanted to increase your business and expand it, and Mr. Harris has just questioned me on that, and I pointed out that we have been expanding our business.

Now, we have had to borrow money and we have had to take on indebtedness. Well, the money that we borrowed, whether that was supplied by the stockholders, or whether that was supplied from loans—we are entitled to a profit on that and that was the only thing I was saying.

Mr. PELLY. You are getting your $72 million depreciation and amortization to repay all of those things, and accelerated depreciation on some of them.

Mr. KEELER. What would you do as an individual, and I shouldn't ask you the question that way, probably.

Mr. PELLY. Well, don't do it, then.

Mr. KEELER. But my point is that as an individual, and I will put it this way rather than a question, I will make a statement: That as an individual I am sure that if you went out here and established a business and regardless of what your income-tax situation was, and

regardless of whether you had 5 dependents or 10 dependents—and if you do heaven help you—and you didn't have enough funds to go ahead with that business and you wanted to expand it, and you thought it was a going thing, if you would invest $5,000 and you come out and borrow $5,000, and you end up with $10,000, and we will say that that business was such that you could get off your money here at some home savings and loan or something that you could get 5 percent from that money—now, wouldn't you expect to get 5 percent by comparison, and wouldn't you expect to take that total money, what you have borrowed and what you already had as a stockholder, you and your family as stockholders in this business, wouldn't you take both sums to compare against this other alternate use of the money? I think that you would.

Mr. PELLY. I think we have got to realize that the public is paying that bill, and the consumer is paying it.

Now, your stockholders have put back $400 million in 10 years in that company and they are entitled to a profit on that $400 million. But I do not think that necessarily because you have had to put in $200 million more and borrow the money.

Mr. KEELER $300 million more.

Mr. PELLY. I think that is being paid off automatically by amortization and depreciation. You are only making 12 percent, and you do not have to apologize to me for the amount of your profits, and I think that 12 percent is on net equity of the stockholders and it certainly is not excessive. But I think we want to get a clear picture of this thing.

Thank you, Mr. Chairman.

The CHAIRMAN. To conclude this matter, Mr. Keeler——

Mr. HARRIS. Could I ask one question? I intended to ask it a moment ago. I am not sure if I know just by what source, or who it was that presented it, but had not the oil industry been asking OPS for an increase in the price of crude oil for the last couple of years, or at least for some time?

Mr. KEELER. Yes, there have been several, to my knowledge, efforts to get the price of crude oil increased.

Mr. HARRIS. How much increase did the oil industry ask OPS to let them have?

Mr. KEELER. I don't know, and I am going to change this a little bit. When you say the oil industry, I mean that certain segments of the oil industry asked for increases. They asked for different amounts, and I think that we have here today some of these companies involved and I would not want to trust to my memory on the thing, but I am under the impression that the amounts asked for in some instances amounted to around 79 to 80 cents a barrel.

Mr. HARRIS. In crude, that is?

Mr. KEELER. Yes, in crude.

Mr. HARRIS. I did not realize it was that much.

That is all.

The CHAIRMAN. Mr. Keeler, I want to ask just a question or two, going back to this question of depletion allowance and the question of 25 cents a barrel as an incentive. I have been giving some thought during this afternoon's session as to how an alternative could be worked out that would produce an incentive and for which the public would not have to pay as is the case when you increase the price of crude

by 25 cents a barrel. There comes to my mind this thought: When you take the depletion allowance and that goes into your financial setup, there is no restriction as to how that shall be spent by the oil companies. It will be a part of the funds out of which dividends can be paid, and expansions can be carried on. In other words, there is no limit to what that depletion allowance could be used for. Now, if that depletion allowance should be earmarked for exploration and discoveries, and that would seem to me to be quite a natural earmarking, because you get it as a result of depleting your reserves and if it would produce or I should say if it should be earmarked and restricted to us for new drilling, then the companies have that incentive and it is not chargeable to the public.

Now, when you compare the situation with respect to integrated, as against independent, companies, it would seem to me that the integrated company has a decided advantage because of the fact that it can use this depletion on production in any other one of its activities, whether it be the refining or transportation or marketing or what not, whereas an independent, not an integrated company, wouldn't have that opportunity.

Now, what do you have to say, if anything, as to what might follow? In other words, suppose that there was a divorcement of activities on the part of integrated companies as between production and all of these other activities. Now, we have seen that sort of divorcement take place in the moving-picture industry. There has been divorcement of moving-picture theaters from the production companies. What would you think of the application of the same principle to the oil industry?

Mr. KEELER. I haven't had a chance to think that one through, but just basically one of the things that bothers me about it, Mr. Wolverton, is that I think that our country and all of our different industries end up with greater prosperity where we can eliminate controls. Now, for the common good of the country, I recognize that there are regulations that are very desirable and places perhaps where we haven't regulated that we should. But I generally look, and this is as I say, off the cuff, because I haven't really had a chance to think that one out, but I look any time that I see us putting more controls on this, I get the feeling that Government cannot do the same job. I spent a year in Government, and I say this as a former bureaucrat now, but I am convinced that Government can do a lot of things, but there are a lot of things that free enterprise, free industry, without a lot of controls, can do better.

I am afraid that what you were suggesting, and I am just saying because when you said "We will put another restriction on it and we will divorce it here," I can see that Government might dismember the oil industry and put restrictions on the oil industry and we come up in 1975 or any other year, and I do not care what year you use, but we have got to proceed very cautiously. This thing has, as Mr. Harris has said, this oil industry has made tremendous strides, and they have done it with some regulation. But I am sure that if we put too many regulations and cut it up this way too much, that we are going to end up doing the very thing that I am sure you would not want to do.

The CHAIRMAN. I do not want the fact that I have asked the question to indicate that I have any definite views along the lines

that I have questioned you but I must say that as we carry on this inquiry, suggestions that are made from one source or another, it is my intention to lay these questions before this group that comes here out of the oil industry in order that they may know how some people are thinking with respect to some of these problems.

When you are allowed 27½ percent depletion, which is an exceedingly large one, and I am not saying whether it is justified or unjustified, and can use it for any purpose that you see fit, it seems to me that there is something that is worth considering in the suggestion that if you are to have depletion then that which you receive as a result thereof should be used to replete what you have depleted. In that event, if it is used for that purpose, rather than some other purpose, which would include the payment of dividends, the public does not pay for the keeping up of the wells and the resulting production.

Mr. KEELER. Now, Government is interested in more than one phase of the oil industry. They are interested in seeing that we not only have production but they are interested in seeing, and I feel that you are, and I am sure that you are, interested in seeing that we have refined petroleum products and that we have transportation systems and that we have these tankers to move these things around and these pipelines and that we have the terminals and bulk stations to the common end that the public best will be served. Now, from that standpoint——

The CHAIRMAN. That may be true, if you could sit in my position and see all of the telegrams that come across my desk from all over this country expressing the views of individuals and of companies, and otherwise, you could understand my desire to lay before the different witnesses who come here some of those problems in order to get their reaction to it.

Mr. KEELER. I certainly think that we should give any of your suggestions consideration, and I don't want you to misinterpret me here.

The CHAIRMAN. I understand, that it would be a rather difficult answer for you to make on such a short notice, with the question being merely asked of you. But when you come down to the question of the difference between integrated and independent companies, that creates a different question because it does relate to free enterprise and the extent to which independent companies can be in a disadvantageous position as a result of not being an integrated company.

So as to eliminate that as was done in the moving-picture industry, that is where it most recently found expression that I can remember offhand, that they divorced the right to conduct theaters from the producing companies. There was a reason for it. And I am wondering if the same reason applies here, and I am asking the question so that those who are better informed than myself can answer.

Now, I want to compliment you, Mr. Keeler, on your appearance here today. It has been a long, grueling experience that you have had and having been on that witness stand since 10 o'clock this morning with a short respite at noon, and you have committed yourself in a most admirable manner. You have given the committee considerable information that will be helpful to us as we endeavor to make a study of this very important question. As I have had opportunity to study the statements of the Phillips Petroleum Co., I certainly cannot

but compliment the company on its progressive leadership. I would not want that to be construed as meaning that I was complimenting them on the increase of 25 cents a barrel which they have put in, but generally speaking as to the progressive attitude of your company in the conduct of its business. It is one of the features that has had some logic with me, as we consider the question of conservation and protecting our own resources, to realize that your company is one of the companies that has found it possible to work out a plan with Mexico so close to us that has proven satisfactory, I assume, from the standpoint both of Mexico and your own company.

For that I think you deserve commendation.

Mr. KEELER. Thank you, sir. I appreciate that very much. I appreciate the opportunity of coming before this committee. I have really tried to give you all of the information that I could. The information that you have asked for that I haven't given yet, I will see that you get just as promptly as we can do. Thank you, very much.

The CHAIRMAN. And we supplement it by some additional requests for information that we have not covered in our questions today.

Mr. KEELER. All right.

The CHAIRMAN. I assume that you will be willing to help us in that respect, also.

Mr. KEELER. We will be very happy to try to do what we can, Mr. Chairman.

The CHAIRMAN. Thank you.

(The following information was later received from Mr. Keeler:)

JULY 16, 1953.

Hon. CHARLES A. WOLVERTON,
Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D. C.

DEAR MR. WOLVERTON: In my prepared statement, as well as in my testimony, I pointed out that there has been an increase of at least 50 percent in the cost today of discovering and producing crude oil over the cost in December 1947, the date of the last general increase in the price of crude oil before the increase last month. In connection with those costs, I am enclosing a schedule of the drilling costs of Phillips Petroleum Co. and subsidiaries for the years 1948 through 1952. It will be noted that there was an increase of 93 percent in the average cost per well completed in 1952 over the average cost per well completed in 1948. This large increase in cost per well becomes even more impressive when one bears in mind the showing in the record that industry experience discloses that reserves discovered per well have decreased.

If I can supply any additional information to you or the committee, or otherwise be of assistance, please so advise me.

Respectfully yours,

W. W. KEELER.

Drilling costs of Phillips Petroleum Co. and subsidiaries, 1948 through 1952

	Average cost per well
1948	$59,400
1949	88,900
1950	78,700
1951	99,700
1952	114,800

The increase in the average cost per well during 1952 over the average cost per well during 1948 was 93 percent.

Phillips Petroleum Co. and subsidiaries data on Wolverton committee letter of July 28, 1953—oil production, gas, and cycling for each of years 1950, 1951, and 1952

Data requested	1950		1951		1952	
	Per books	For income-tax purposes	Per books	For income-tax purposes	Per books	For income-tax purposes
1. Depreciation, depletion and amortization of capitalized costs:						
(a) Lands and leaseholds	$4,672,000	(1)	$3,684,000	(1)	$3,790,000	(1)
Per books: Depletion of lands and leaseholds is determined by the use of the unit of production method applied by properties wherein the cost of the property less depletion sustained in prior years is divided by the estimated recoverable reserves and the resulting unit cost multiplied by the production to determine the depletion for the period. For income-tax purposes: See item 5 below.						
(b) Geological and geophysical	(2)	(2)	(2)	(2)	(2)	(2)
Per books: Capitalized geological and geophysical costs are included with leaseholds on the books and amounts allocated to leases which become producing are charged off as outlined in 1 (a) above and the amounts allocated to leases which never become producing are charged off as outlined in 4 (a) below. For income-tax purposes: Capitalized geological and geophysical costs are included with leaseholds and the amounts allocated to leases which become producing are recovered through allowable depletion (5 below) and the amounts allocated to leases which never become producing are charged off as outlined in 4 (a) below.						
(c) Productive wells (equipment and materials on producing properties) (includes depreciation of service facilities)	4,569,000	$5,800,000	4,783,000	$7,520,000	5,913,000	$10,753,000
Per books: Equipment on producing leases is depreciated by use of the straight-line method wherein for 1952 the properties are grouped by location and a separate percentage rate applied to the gross cost of each group. In 1950 and 1951, the straight-line method was applied by properties wherein the gross cost less estimated salvage value less prior depreciation sustained was depreciated over the estimated future life of the property. Depreciation on service and general assets is computed by use of the straight-line method and applied to some assets by individual units and to other assets by use of a composite rate for the total of the account depending on the nature of the assets. Retirement losses include cost of retirements plus the undepreciated balance of assets retired for which depreciation is computed on an individual unit basis. For income-tax purposes: Depreciation on lease equipment is computed by properties by the use of the unit of production method wherein the cost of the equipment on the property less estimated salvage value and less prior depreciation sustained is divided by the estimated recoverable oil or gas reserves and the resultant unit cost multiplied by the production from the property to determine the depreciation for the period. Depreciation on service and general assets is computed by use of the straight-line method and applied to some assets by individual units and to other assets by use of a composite rate for the total of the account depending on the nature of the assets. Retirement losses include cost of retirements plus the undepreciated balance of assets retired for which depreciation is computed on an individual unit basis. (See item 11.)						
Total	9,241,000	5,800,000	8,467,000	7,520,000	9,703,000	10,753,000

See footnotes at end of table.

Phillips Petroleum Co. and subsidiaries data on Wolverton committee letter of July 28, 1953—oil production, gas, and cycling for each of years 1950, 1951, and 1952—Continued

Data requested	1950		1951		1952	
	Per books	For income-tax purposes	Per books	For income-tax purposes	Per books	For income-tax purposes
Per barrel unit (unable to compute).[3]						
2. Intangible drilling costs, productive wells	$9,198,000	$15,227,000	$11,367,000	$29,552,000	$15,083,000	$37,965,000
Per books: Intangible drilling costs are charged off over the life of the property by use of the unit of production method applied by properties. For income-tax purposes: The intangible drilling costs on productive wells represent the amounts expended during the year for drilling and completing productive wells and initial installation cost of "down the hole" equipment. (See item 11.)						
Per-barrel unit (if applicable). (See comments above.)						
3. Nonproductive well (dry-hole) costs	5,039,000	4,666,000	10,405,000	10,675,000	16,153,000	17,270,000
Per books: Nonproductive (dry-hole) costs represent the cost of wells completed during the year plus an accrual for probable dry holes drilling at the end of the year. Dry-hole contributions made during the year are also included in these costs. For income-tax purposes: This represents the amount expended in the current year for drilling nonproductive wells including wells incomplete at the end of the year which were subsequently completed as dry holes. Expenditures by the geological department for drilling tests which proved nonproductive and dry-hole contributions are also included. (See item 11.)						
4. Other expenses or writeoffs on nonproductive properties either as direct charges to expenses or cancellation or abandonment of leases, as:						
(a) Lands and leaseholds	4,064,000	4,048,000	4,612,000	4,710,000	3,806,000	3,719,000
Per books: This represents the cost, including any capitalized exploration costs, of undeveloped leases which expired or were surrendered during the year. For income-tax purposes: This represents the cost, including any capitalized exploration costs, of undeveloped leases which expired or were surrendered during the year as adjusted by revenue agents.						
(b) Geological and geophysical (includes land department expense)	5,774,000	5,474,000	9,475,000	6,848,000	11,784,000	10,300,000
Per books: This represents cost of operating the land and geological department for the year plus the cost of geological exploration work performed including the cost of drilling certain stratographic core test wells. At such time as the portion of exploration work required by the engineer revenue agent to be capitalized is determined, the amount is credited to expense on the books and charged to the undeveloped leases account. For income-tax purposes: This represents the cost of operating the land and geological department for the year plus the cost of performing exploration work which did not result in the retention or acquisition of acreage. Certain drilling costs expended by the geological department on stratographic core test wells and included in this category on the books have been transferred to nonproductive well costs for tax purposes. (See item 11.)						
(c) Delay rentals	4,583,000	4,594,000	4,685,000	4,687,000	5,613,000	5,613,000
Rentals on undeveloped leases are charged to expense as paid.						
5. Depletion allowance		28,242,000		31,779,000		33,033,000

For income-tax purposes: Depletion is based upon cost or 27½ percent of gross income limited to 50 percent of net income from each producing property, determined in accordance with the provisions of secs. 23 (m) and 114 (b) (3) of the Internal Revenue Code.						
6. Total of above items	37,899,000	68,051,000	49,011,000	95,771,000	62,142,000	118,653,000

ADDITIONAL PERTINENT DATA

	1950	1951	1952
7. Amount expended in search for new oil and gas reserves	$43,800,000	$75,200,000	$107,000,000
8. Estimated tax savings (based on difference between depletion taken on books and that charged off for income-tax purposes)	9,900,000	14,300,000	15,200,000
9. Amount of capital expenditures supplied from sources other than tax savings	33,900,000	60,900,000	91,800,000
10. Percent of total oil and gas expenditures covered by tax savings	22.6	19.0	14.2
11. Differences between amounts recorded on books and reflected in tax returns for items 1 (c), 2, 3, and 4 result from different methods of amortization and, over the life of the properties, will result in a chargeoff of not more than original cost. Therefore, no tax saving accrues, except through change in tax rates.			

[1] See items 5, 8, and 11.
[2] Included in (a) above.
[3] Volumes of the various products follow:

	1950	1951	1952
Crude-oil production (net barrels)	35,527,000	41,905,000	45,286,000
Gas production (net million cubic feet)	362,239,000	365,097,000	375,207,000
Cycling products (net barrels)	741,000	795,000	766,000

NOTE.—Crude-oil production is the net barrels of domestic crude oil produced. Gas produced from the company's oil and gas leases is shown in thousand cubic feet, and we do not express gas volume on an oil equivalent basis. The production of cycling products represents the net barrels of liquid products produced by cycling plants which process gas and condensate for the production of these various liquid products.

Now, Mr. Petersen. Will you give us some indication of the time that will be necessary from your standpoint? How much time will it take to present your views? I won't be responsible for time taken up by questions, but from your own statement.

STATEMENT OF T. S. PETERSEN, PRESIDENT, STANDARD OIL CO. OF CALIFORNIA, SAN FRANCISCO, CALIF.

Mr. PETERSEN. I have a statement, copies of which are here, and I think it will take about 4 or 5 minutes to read it and I will be glad to try to answer any questions that you might have after that time.

The CHAIRMAN. Mr. Petersen is the president of the Standard Oil Co. of California.

Mr. PETERSEN. I wish to thank the committee for inviting me to present the facts as they pertain to my company on increases in the west coast prices of crude oil and petroleum products. I am glad to make in this more formal way the explanation we informally presented some months ago to many Members of Congress, including some members of your committee. At the time our price increases were announced in February of this year we came to Washington on our own initiative to submit the facts to many Senators and Congressmen from the Western States affected and to other Government officials.

Your committee's invitation indicated testimony was desired from a representative of my company concerning the west coast price increases we made in February. I will, therefore, address my attention particularly to these west coast price increases.

On the subject I will discuss there is a full public record before the Office of Price Stabilization and other Government agencies. I am sure it will be of value to your committee if I file this record with you as an exhibit. The same document was given these western Members of Congress as a chronological statement of events and official acts resulting in our price increase.

To summarize the publicly documented facts shown in the exhibit just filed:

My company announced increases in its west coast prices of crude oil and finished products effective February 16, 1953, shortly after petroleum price controls had been removed by the Office of Price Stabilization. Since January 26, 1951, ceiling prices had been in effect and the normal forces of supply and demand had not been free to operate. After long investigation, the control agencies recognized that these ceiling prices were unrealistically low and were the cause of severe shortages of both crude oil and refined products. The severity of the shortage was such that my company found it necessary to import into California substantial quantities of crude at a loss.

In November and December of 1952 both the Petroleum Adminsitration for Defense and the Petroleum Branch of the Office of Price Stabilization found that prompt increases in the ceiling prices for crude and products were required to alleviate the shortage; and they

recommended that action. The final decision, however, was to decontrol petroleum prices, in preference to increasing ceiling prices, in order that the forces of supply and demand could work freely to establish the level of prices necessary to relieve the shortage. It was for this reason that petroleum prices were freed well before the general removal of price controls on other commodities. The essential basis on which our price increases would be made had been indicated by us to the defense and stabilization agencies before decontrol was ordered.

Thus, the control agencies recognized that supply and demand factors, freed from the artificial restraint of price control, would bring about increased petroleum prices on the west coast following decontrol. With a combination of high demand on the west coast, augmented by very large military requirements, and a cumulating shortage of crude oil relative to the refining capacity available, it was natural and necessary that these increases be made. If free economic forces had been operating, it is undoubtedly true that a series of smaller adjustments would have taken place during the 2 years when price controls were in effect. Prices affect thousands of individual situations, and experience indicates that in periods of shortage prices will rise by steps to increase available supplies.

These orderly adjustments, however, had been prevented by price ceilings. It was, therefore, inevitable that when ceilings were removed prices would rise. The supply problem required that they do so immediately.

The extent of the increased demand, and of the shortages, as well as the necessity for corrective price increases, are stated in detail in the report by the Petroleum Administration for Defense, dated November 13, 1952. This is included in the exhibit I have filed. I respectfully refer the members of the committee to that report, since it states officially and completely the factors which led to our price increase.

At the present time, due to the incentive provided by the price increases, to my knowledge west coast demand for petroleum products is generally met. There are exceptions. The most significant is the military requirements for aviation gasoline, which is entirely a problem of refining capacity. The Petroleum Administration for Defense publicly stated that the immediate solution to this shortage did not lie in increased crude and petroleum product prices.

While there is adequate supply at present, and while the price increases have provided a production incentive, current price levels also recognize that the west coast can no longer be regarded as independent from outside supply. In our opinion the historical independence of the west coast has probably ended and, according to present forecasts, the west coast will be an importer in the future. Our application for ceiling-price increases filed with the OPS in August 1952 recognized this fact.

In some sections at the perimeter of the west-coast marketing area, price increases were not made in February. Due to the availability there of products from other supply areas, the economic forces affecting the coast did not apply. When crude price increases in the alternative supply areas took place, however, it did become necessary that we increase our prices in these perimeter sections.

It may be appropriate at this point to comment on the suggestion that petroleum-price increases are inconsistent with the earnings record of certain integrated oil companies. This suggestion overlooks the fact that integrated companies are not the only factors in the petroleum market. Crude-oil prices must provide an incentive for the independent producer and the wildcatter who are essential to the development of adequate reserves. Similarly, a healthy refining industry cannot exist unless adjustment in crude-oil prices is adequately reflected in prices for refined products. This point has been repeatedly stressed by the Petroleum Administration for Defense.

I wish to say emphatically that my company's price decisions have been independently made. I am aware that within a relatively short time after our price increase was announced other west-coast companies also made increases. I have no knowledge of the consideration that was given to the increases by those companies. It is obvious to me, however, that the same economic forces which necessitated our price action also affected our competitors.

My discussion of the economic forces which required price increases on the west coast has not touched upon the relationship of these prices to the general purchasing power of the dollar. It must be apparent that when prices are dictated by shortage of a commodity, they may reach a level which is little influenced by general price levels. The absence of direct relationship between the purchasing power of the dollar and petroleum-product prices is dramatically illustrated by the 2 charts shown on the last 2 pages of the exhibit I have filed. These charts portray that gasoline prices, including the increases we announced in February 1953, have increased only 20 percent at retail and 11 percent at wholesale since 1925. In contrast, the prices of other commodities and services purchased by the petroleum industry and others had increased in far greater proportion; for example, the cost of lumber had increased 248 percent; construction costs were up 182 percent; and refinery wages were up 137 percent.

I am sure my testimony and the exhibit I have filed will give your committee a full understanding of the reasons for my company's recent price adjustments.

Now, Mr. Chairman, that is confined to the west coast because that is what you asked us for, but if there is anything you would like to ask regarding the questions you brought out earlier, I will do my best to try to answer them.

The CHAIRMAN. Are there any questions, gentlemen?

Mr. Petersen, we realize that your testimony would necessarily be confined to the west coast, and very properly so. In that connection I have before me the testimony of Mr. Follis of your company before the Ways and Means Committee on May 13. He said:

> Because of the Korean war and other activities in the Pacific, the military services have placed demands upon our western oil industry entirely disproportionate to our supply.

Did he imply by that that demands might have been shared on other areas or that the military should have done so?

Mr. PETERSEN. The point that Mr. Follis was making there was that the west coast being a great deal closer to the area of conflict out in the Pacific, it was a natural point for the military to turn to, to secure a supply of products, and did. They have asked for a great deal larger supply of their military requirements from the west coast than they have asked from other parts of the country, because the other parts of the country were a great deal farther away.

I must say that the military have been, once they found we had a limit as to what we can produce, extremely cooperative in trying to arrange for supplies from other areas of the country, including the gulf and the gulf coast.

The CHAIRMAN. Well, having in mind, as you say, the proximity as being probably the cause that prompted the military to call upon you more than some other area of this country, why did not the same reason impel the getting of oil from the East Indies or the Near East?

Mr. PETERSEN. The same reason that the military would not take supplies from Sumatra or the Middle East; they are taking a great deal of oil from the Middle East, and as a matter of fact, I think the military would indicate that the majority of the products going into Korea are coming from that area.

The CHAIRMAN. Has that been all through the time or just recently?

Mr. PETERSEN. No; that has been my understanding, that it is carried on as a regular program, since the start of that conflict. But they do require a great deal of products, and they have required from the west coast and from this country, because they have picked up a great deal of products in the gulf, particularly in the last year and a half. A great deal of products have been picked up to supplement what they get from the Middle East. Sumatra does not have a great deal of refining capacity, and they would not be able to get the finished products they require in the same degree as they would from the Middle East.

The CHAIRMAN. Were they only taking refined products from that area?

Mr. PETERSEN. I do not know of any crude oil that the military have been buying. MSA, as you mentioned a few moments ago, of course, has been buying crude oil to go into countries.

The CHAIRMAN. Are there refining facilities in the East Indies sufficient to be of any appreciable help?

Mr. PETERSEN. I think they have been used up to their capacity.

The CHAIRMAN. Has that been appreciable?

Mr. PETERSEN. I do not think it has, because the refineries at Palembang, one by the Shell Oil Co. and one by the Standvac, are rather limited as to the amount of oil they can process; and what they would be able to do, to take care of their civilian obligations, and above that take care of what the military wanted, I do not think would constitute a very great contribution to their supply.

The CHAIRMAN. Then it is your opinion that the shutdown of Abadan did affect the amount that had to be supplied by California?

Mr. PETERSEN. It think that the shutdown of Abadan, of course,

closed off 750,000 barrels of oil from the world, including a very substantial amount of 100-octane gasoline, and it was quite a task to have the military supplied with that part of the produce taken away from them by that shutdown.

The CHAIRMAN. Mr. Follis, the chairman of your company, before the Ways and Means Committee on May 13 said:

> It is significant that California oil reserves are being produced at a higher rate than other substantial producing areas in the world.

Does that mean that the California reserves are being produced at or above the maximum efficient rate?

Mr. PETERSEN. I think the producing people of the oil industry feel, Mr. Chairman, that an oil reservoir should properly be produced or could properly be produced at something like 7 percent extraction a year. California is producing its fields at about 9½ percent or about 25 percent more than what good petroleum engineering would indicate was proper practice to get the most oil out of that reservoir.

I think here in this country we are reducing our reserves at a little more than 7 percent, and the Middle East on the other hand are reducing reserves at comparatively insignificant figures, 1 or 2 percent.

The CHAIRMAN. Well, as I understand it, the State of California has no conservation law relating to maintaining of good production practices in the interest of conservation, nor does it have a proration law similar to that in Texas. Is that right?

Mr. PETERSEN. California has no conservation law, Mr. Chairman, of any kind. We do have one on gas that has very rarely been made effective. But they have a conservation committee that is a voluntary committee composed of some 600 producing members, companies in California, and that conservation group operates to effect a conservation committee in 30 areas in California.

Each one of these areas elects a chairman of this sectional committee, and that constitutes that conservation committee. They have a subcommittee composed of a petroleum engineering group, and that petroleum engineering group examine the reservoirs of the State which comprise some 500 reservoirs. About 166 of those are what are still termed as flush reservoirs that can be produced in amounts that would destroy the ultimate recovery of the oil in those reservoirs.

The others are older fields, and they are fields that are being pumped, and there is no attempt by this petroleum engineering committee to make any recommendation as to how much oil could be taken from those three-hundred-odd nonflush fields.

On 166 of these fields, these flush fields, they do make recommendation as to how much oil can be taken from those fields without, as I say, impairing the reservoir itself. Those recommendations are passed to the companies that are producing oil from the fields, and their compliance with it is completely voluntary. Sometimes they comply, most of the time I think they do, because they are interested in getting all of the oil and all of the profits they can out of those reservoirs.

In many cases, they do not, and since the war it is estimated that some eighty-odd million barrels have been produced in excess of the recommendations of the petroleum engineering committee.

The CHAIRMAN. I have a recollection when I was in California with the Cole committee 20 years or more ago that you had such a committee as you have described working there at that time, and I assume that this is a continuation of that same committee.

Mr. PETERSEN. This is a continuation not of that committee, Mr. Chairman, but of a committee that was organized at the time of the war, when the war started, and the old committee was abandoned and the new committee took effect, under the Petroleum Administration for War that came in, and their purpose was to get all of the oil that could possibly be produced from the oilfields of California, and this present committee is a committee that continues as a result of that beginning in 1940.

The CHAIRMAN. Just testing my memory, I have in mind the name of a Mr. Pemberton. Was he in charge at that time?

Mr. PETERSEN. Yes. You have a good memory.

The CHAIRMAN. Probably he remembers me as well.

I noticed in the New York Journal of Commerce of June 16 an article that either you or Mr. Follis had said publicly that he doubted supply and demand conditions could sustain a change in basic crude prices east of the Rockies this year.

Was that statement made, and if so, what would be the basis?

Mr. PETERSEN. It was not made by me, and if it was made by Mr. Follis, I would be very surprised.

The CHAIRMAN. You see how they get things in New York papers, then.

Mr. PETERSEN. It certainly is contrary to any philosophy or feeling that we have.

The CHAIRMAN. Is it your opinion that the crude price increase can be sustained?

Mr. PETERSEN. I would like to make a statement before answering that question, Mr. Chairman, if I may. I sense in sitting here today that this committee has rather the feeling that the oil industry is charging some exorbitant prices, too much, and what we have done has been to the detriment of the public. I would like to say for my company——

Mr. HARRIS. If you said this committee is feeling that, I do not want to have any member of the committee be responsible for such an impression.

The CHAIRMAN. I assume I could speak for other members of the committee that any interest that we have shown in this subject is not necessarily based on a commitment to any particular view, but as is frequently said over the television, "This is our means of getting the facts."

Mr. PETERSEN. I appreciate that. I would like to say that as far as the feeling of responsibility in the public interest, that Mr. Heselton has mentioned several times today, that my company has a very serious

regard for that, and I am quite sure that that regard is shared by the responsible elements of the oil industry which I think may include practically all of it.

Now, I have here a little chart that shows what I think is the real measurement of what the oil industry has done for the public in the main product that the public is interested in, and that is gasoline. It goes back to 1913. It shows that in 1913 the worktime for the factory worker to earn the price of a gallon of gasoline was 30 minutes. That is back in 1913. Today, if we exclude the gasoline tax that is in effect, it is 7½ minutes. If we include the gasoline tax, it is 10 minutes.

Now, you can see that over a period of 40 years, that that line has consistently gone down, and it has consistently resulted in some direct benefits to the public. He has been able to buy all of the gasoline he wanted. I think he is in that position today, so that my feeling about the present prices is, first, that they are not high. I think the gasoline tax has risen to a point where it is a very considerable part of the total gasoline price, but gasoline itself is not.

So my feeling about this ability of the oil industry, or this oil price remaining where it is, is one of sincere belief that the increases were justified in the interest of stimulating a greater productive capacity in this country, and that they will stand.

I think that the public are being very adequately taken care of at the prices where they now come to rest, even though these adjustments as they are made do amount to a very considerable sum of money, as has been brought out here in the testimony today.

The CHAIRMAN. Do you think the public should have the benefit of the savings that come to the oil companies as a result of the depletion allowance of 27½ percent, in the way I indicated a few minutes ago?

Mr. PETERSEN. I think, Mr. Chairman, that the wisdom of this Government in allowing for extractive industries a depletion allowance is one of the wisest things that has ever been done in protecting this Nation with an adequate supply of raw materials.

Now, as you know, depletion allowances are applied in practically all of the extractive industries, coal and sulfur and iron ore, and in oil 27½ percent depletion allowance has been allowed, and it has been a most practical thing in stimulating the finding of this oil that we have, which is estimated somewhere in the neighborhood of 3 billion barrels a year.

The CHAIRMAN. In view of the fact that you have said it has been a very stimulating influence, is it your opinion that it would be a totally stimulating influence if it were earmarked for the purpose of exploration and discovery?

Mr. PETERSEN. I think practically, Mr. Chairman, and this is my view and I know that in our own company that we spend many times the amount that is allowed as a depletion allowance in exploratory activities of our company. It is my belief that that is true of all of the companies. They would take that money and not build a service station, as you indicate they could if they wanted to under the present law, but I do not think they do.

I am quite sure that any integrated company, of which mine is one, places more emphasis on that matter of protecting his company's

future and the matter of finding new oil and by their exploratory work than he does about any other phase of his whole operation, except being able to live with the public. I think that is the No. 1 thing with any large company.

The CHAIRMAN. If that is the case in your company, where you use the depletion allowance for the purpose of new drillings and new discoveries and so forth, then there would not be any objection upon your part if that were made necessary on the part of all companies, would it?

Mr. PETERSEN. As a practical matter, Mr. Chairman, I do not think that it would make much difference whether it was obligatory or not. I know that we are spending this year somewhere in the neighborhood of $90 million in our exploratory work. It is a large amount of money, but that is the most important job we have got to do, is to find enough oil.

The CHAIRMAN. What will your depletion allowance be?

Mr. PETERSEN. I cannot give you those figures, and I would much rather, if you would permit me, instead of trying to draw them out of my head, to send them on to you; and I would be glad to do it for a period of 5 years or 1 year.

The CHAIRMAN. I thought perhaps you could approximately state the figures for 1952.

Mr. PETERSEN. I am afraid that if it will not affect the record——

The CHAIRMAN. I will not press you if you do not like to do it.

Mr. PETERSEN. I am afraid it would not be dependable if I give you a figure.

The CHAIRMAN. Your president, Mr. Follis, in his testimony before the Ways and Means Committee on May 13 testified bearing on the crude-price rise being occasioned by the need to cover increased costs especially in drilling activities. In that testimony he stated that the number of crews operating the first 2 months of this year was 713 compared with 627 in the first 2 months of 1952, and 485 for 1951; and that well completions showed only a slight change and that there continued to be a shortage of geologists and so forth. He said:

> As a matter of fact, all of these activities continue at exceptionally high levels related to our past history. Development drilling is also subject to fluctuations, independent of imports and often related only to the irregular sequence with which discoveries come in. A bunching of our discoveries at any time will result in a major burst of drilling and vice versa, without regard to other factors.

Do you subscribe to that statement?

Mr. PETERSEN. Yes.

The CHAIRMAN. What is your feeling that higher costs have decreased earnings or the incentive to discover crude and that these costs have depressed drilling?

Mr. PETERSEN. I think that citing the profits that have been mentioned in our discussions this morning is rather misleading because they represent some companies who have had some terrific increases in their own earning records. But there are several thousand independent oil operators in this country that have not been in those positions and who have been an extremely important force in the matter of developing new crude supplies in our country. I think the pressure that comes from them on the matter of feeling that they are

entitled to a greater return for what they are doing—and the work that they are doing is a very realistic factor—I think that there is a great deal of that.

You asked a question this morning about if the people that we bought crude from raised the point of wanting a higher price for it, and I would say, Good Lord, yes; every one of them raises that question every time we see them. It is not something that they are quiet about at all.

In our country, in California, we buy about 60 percent of the oil that we put through our refineries, so the great part of our oil and the great part of this increase went right back to those groups of independent oil producers. There has been a very major pressure from that group for an increase in the price of crude, because their prices have gone up, and the matter of drilling has gone up, and the matter of their expenses and the matter of their supplies, and they have seen that that difference between what they were able to make and what they had to spend was getting smaller and there has been a great force in that direction moving for a long time.

The CHAIRMAN. Well, the effect on the independent dealer, not speaking of the producer now, of course, is very much greater than it is on an integrated company; is it not?

Mr. PETERSEN. You are speaking now of the service-station dealer, Mr. Chairman?

The CHAIRMAN. Yes.

Mr. PETERSEN. Yes. I think that the independent dealer, a man running a service station or distributor is a fellow that has been pretty badly squeezed in the last few years.

The CHAIRMAN. Judging by the telegrams that I am receiving, it would indicate that is very generally thought.

Mr. PETERSEN. There is a point in conjunction with that that I think is well to bring out, and that is that when we adjust prices on products, we do not adjust any retail price for that; the dealer does that himself; so these dealers have a measure of control as to what they are able to do.

The CHAIRMAN. What do you mean when you use the term "we" do not?

Mr. PETERSEN. Standard of California.

The CHAIRMAN. You did not have in mind anybody else, did you?

Mr. PETERSEN. I am sorry; I know that trail leads into a very bad spot.

The CHAIRMAN. As long as you bowed yourself out, I will not press it further with you.

In your May 12, 1953, prospectus, covering your common stock, you plan on spending $225 million in 1953. Does this represent any diminution of your program in the United States for exploration and development work as compared with 1952?

Mr. PETERSEN. No; it does not. Even if oil never went up beyond where it is, we would do our best to spend all of the money we could get our hands on properly in our exploratory work. We would do as much of it as we could afford. Some day we would have a feeling

that the price of oil would finally adjust itself, and we would be able to come through there. But that program that is spoken of there carries through about the same level as we did in 1952. We have increased that somewhat, but those increases have come in the manufacturing field more than the producing field.

The CHAIRMAN. Can I assume from what you have said, then, that the increase that you made in the early part of this year was not necessary to improve or create an incentive for additional drilling?

Mr. PETERSEN. No; the increase that we made out on the Pacific coast, in February, was primarily directed at bringing enough crude oil to the Pacific coast to supply the industry and the people of the Pacific coast. We have been importing crude there for more than 2 years, and the other companies have been importing crude.

If we had not stepped out and been willing to take a substantial loss, somebody would have gone without gasoline or diesel oil. That, we think, is a major responsibility of a company like ours. We are big, and we cannot build up a business that gets up to a point where we are supplying a substantial portion of a market and then, because we run into difficult times, turn our back on it and not continue to supply it. So we have done that. We have shipped trainloads of crude oil from Salt Lake to Richmond and from El Paso to El Segundo for as much as 4 months and at a cost of $1.46 for freight out of our pocket. And we have been glad to pay it to get the crude to see that the fellow up in Seattle did not run out of fuel to feed himself or keep himself warm.

That is the primary reason for that adjustment. When prices had moved, and we had asked the Office of Price Stabilization before they could move, for permission to adjust and to a point where we could bring crude into the Pacific coast; that was the primary purpose.

But a purpose almost as important is the one of giving to the independent oil producer an incentive to do just what you have outlined We like that incentive ourselves, but if we did not have it, we would still try to find all of the oil we could.

The CHAIRMAN. Of course, I can see that there is a different element that enters into it so far as Standard Oil of California is concerned, more easily at least than I can with some other.

Now, Mr. Petersen, will you supply us with your per unit charges for the years 1950, 1951, and 1952 for depletion and amortization of leaseholds as it totals for the United States? Though my request at this point is limited to that, as it does not show up separately in your financial statements. Perhaps you had better furnish them, too.

Mr. PETERSEN. We will be glad to do that.

(The financial statements have been placed in the committee files.)

The CHAIRMAN. And also any direct charges which do not pass through your amortization accounts; and would you also indicate for these years the amount of depletion under the 27-percent allowance which you take for income-tax purposes?

Mr. PETERSEN. We will be glad to get those figures and supply them to you.

36179—54——12

(The information is as follows:)

ANSWERS TO QUESTIONS NOS. 1 AND 3

No. 1: Unit charges for year 1950, 1951, 1952, for depletion and amortization of leaseholds as it totals for United States.

No. 3: Any direct charges which do not pass through amortization accounts.[1]

Standard Oil Co. of California does not use separate depletion and depreciation unit rates, and does not compute depletion and depreciation separately for each property. It uses overall rates to write off the cost of properties (lands and leaseholds), well costs, and miscellaneous plant. Its direct charges relating to acquisition, retention, and development of properties which do not pass through depreciation, depletion, and amortization accounts are unproductive-well (dry-hole) costs, delay rentals, and expensed exploration costs.

These charges are as follows:

	Depreciation depletion and amortization	Direct charges to expense [1]	Total	$/bbl. production [2]
1950	$42,588,751	$17,047,727	$59,636,478	$0.55
1951	46,980,754	26,507,511	73,488,265	.66
1952	54,074,598	43,865,534	97,940,132	.88

[1] Consists of unproductive well costs, delay rentals, exploration expenses.
[2] Production consists of crude oil and natural gas liquids, and of dry gas expressed on an oil-equivalent basis.

ANSWER TO QUESTION NO. 4

Would you also indicate for these years the amount of depletion under the 27-percent allowance which you take for income-tax purposes? Standard Oil Co. of California and its subsidiaries (United States operations only).

1950	$60,939,809
1951	66,250,915
1952	64,328,151

STANDARD OIL CO. OF CALIFORNIA,
San Francisco 20, Calif., August 14, 1953.

HON. CHARLES A. WOLVERTON,
Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D. C.

DEAR MR. WOLVERTON: As requested in your letter of July 28, 1953, there is enclosed the data outlined in the table which you submitted. Because our methods of recordkeeping are not in complete accord with your segregation of items, we were compelled to make some slight variations but have followed your table as closely as possible and have endeavored through the use of explanatory footnotes to bring out the variances.

We have taken the liberty of adding a line to the table showing total expenditures incurred for exploration and development work.

If there is further information you require, we will be pleased to comply.

Very truly yours,

T. S. PETERSEN.

Enclosure.

[1] Standard Oil Co. of California and its subsidiaries (United States operations only).

Standard Oil Co. of California and domestic subsidiaries, United States operations only

	Year 1952		Year 1951		Year 1950	
Production: Barrels of crude oil, natural gas liquids and dry gas expressed on an oil equivalent basis	111,349,896		111,882,880		108,790,859	
	Per books	For income-tax purposes	Per books	For income-tax purposes	Per books	For income-tax purposes
1. Depreciation, depletion and amortization of capitalized costs:						
(a) Lands and leaseholds	[1] $14,462,131	[2] $5,244,683	$8,955,260	$3,188,244	$6,401,510	$5,571,038
(b) Geological and geophysical						
(c) Productive wells (equipment and materials on producing properties)	[3] [4] 35,632,623		[5] 34,549,817		[5] 32,875,229	
Depreciation—service facilities	[7] 3,979,844	[8] 13,819,633	3,484,678	12,685,724	3,312,012	11,824,364
2. Intangible drilling costs—productive wells		28,167,689		23,162,916		23,889,490
3. Nonproductive well (dry-hole) costs	25,392,421	25,284,281	15,061,782	14,975,019	8,640,322	8,428,726
4. Other expenses or writeoffs on nonproductive properties either as direct charges to expenses or cancellation or abandonment of leases as:						
(a) Lands and leaseholds	[9] 12,790,592	13,352,704	7,984,149	8,162,104	6,375,367	8,139,186
(b) Geological and geophysical						
(c) Delay rentals	5,725,634	5,725,634	3,339,178	3,339,178	2,046,050	2,046,050
5. Percentage depletion allowance		64,328,151		66,250,915		60,939,809
Total of above items	97,983,245	155,922,775	73,365,864	131,764,100	59,650,490	120,838,663
Total expenditures during the year for exploration and development	124,255,782		95,088,599		72,315,182	

[1] Amortization on an average lease life basis of capitalized cost of undeveloped properties. Our method of recordkeeping does not segregate items 1 (*a*) and 1 (*b*).

[2] Cost on tax basis of undeveloped property leases surrendered during the year.

[3] The net book value of the producing properties at the beginning of the year plus estimated future costs of their development and less estimated salvage is divided by the estimated barrels of recoverable reserves of crude oil, natural gas liquids, and dry gas expressed on an oil-equivalent basis; the resulting unit rate is applied to the production for the year in arriving at the estimated depreciation and depletion. This includes items 1 (*a*), 1 (*b*), and 1 (*c*), and 2 as they apply to productive properties. These items are not segregated on our records.

[4] Per-barrel unit, $0.32.

[5] Per-barrel unit, $0.31.

[6] Per-barrel unit, $0.30.

[7] Depreciation of tangible investment in producing facilities not included in the unit of production group.

[8] Depreciation of tangible investment in producing facilities not subject to depletion. Comparable book depreciation is included partly in item under [3] and partly in item under [7].

[9] Our method of recordkeeping does not segregate items 4 (*a*) and 4 (*b*).

The CHAIRMAN. Now, I have been a bit interested in the articles that have been written by Miss W. M. Jablonsky in the Journal of Commerce, having to do with the crude oil prices in Venezuela and in the Middle East, especially those of June 18 and July 2.

These discuss at some length the interrelation between the increase in these domestic prices of 25 cents and the accompanying increase in the Venezuela price and the probabilities of maintaining them if the Middle East price does not change. Do you know whether the price in the Middle East has changed?

Mr. PETERSEN. The price in Venezuela has changed, as I am sure you know, but the price in the Middle East to my knowledge, as recent as last Saturday, had not changed.

The CHAIRMAN. I understood it was around $1.50 and had been $1.65.

Mr. PETERSEN. There are several prices there. The price that is charged for Arabian crude down in the Persian Gulf is $1.75, and I think that there is some prices for different crudes there that are different gravities and higher sulfur contents that do not have quite the refining value that that crude has, and they are offered at something lower than that. I recall it was $1.60.

The CHAIRMAN. If that price continues, will that not lead to greater imports of oil into this country?

Mr. PETERSEN. At the present time, I think the oil from the Middle East coming to this country constitutes only about 4 percent of the supply that this country is using, so it is not a big factor. I do not know. I would think that if that crude is offered in this country, that there could be some additional Middle East crude come here.

The CHAIRMAN. Would not that be natural under the circumstances?

Mr. PETERSEN. I would think that a company that was interested in disposing of its crude might welcome some sales of Middle East crude coming into this country as well as other areas.

The CHAIRMAN. Especially with tanker rates at such a low level as they are at the present time.

Mr. PETERSEN. That is the main factor that is causing the movement that is occurring of Middle East crude into these areas of this continent. As you know, at the present time the tanker rates are very depressed.

The CHAIRMAN. Frequently the charge is made that this increase of 25 cents per barrel was made with a thought that it would have an influence on pending legislation. Do you have any thoughts on that?

Mr. PETERSEN. I am sorry; I did not get your last word.

The CHAIRMAN. I say, frequently the view is expresed that the increase of 25 cents a barrel at this time was done for the purpose of influencing proposed legislation limiting imports, and it was done to take the pressure off against such legislation. Do you have any thought to express on that?

Mr. PETERSEN. My feeling is that that is not so. Certainly if that is the only basis we have of moving or adjusting our price of crude, it is not a very sound one. I think that the price of crude was arrived at solely from the standpoint of—and when the story is finally developed—of developing a greater reserve in this country by providing a greater incentive to the people.

The CHAIRMAN. The Independent Petroleum Institute that previously had taken one attitude on that proposed legislation, seemed

to be greatly pleased with this increase, and there has been some indication that they were not pressing their position as strongly as they previously had.

Mr. PETERSEN. Well, my feeling on that, Mr. Chairman, is that that would be a very difficult bargain for anyone to make if he had any such inclination. I do not think that there is any bargain of that kind in this adjustment at all.

The CHAIRMAN. You do not mind my dropping some of these things in your lap for an answer, do you?

Mr. PETERSEN. Not a bit.

The CHAIRMAN. If the Middle East price does or has gone up, does this mean that it will go up for all consumers, do you think, for all customers?

Mr. PETERSEN. If it goes up, I do not know quite how to answer that.

The CHAIRMAN. What I am going to drive at is this: Can we look forward to an increase of cost to the Mutual Security Administration?

Mr. PETERSEN. I do not know what adjustments are going to be made in the Middle East on their crude. I know that people that control that oil, the governments that control it, feel it has some definite relationship in value to oil in other parts of the world and have some interest in seeing that expressed in returns that come back to themselves. The people that sell the oil there, we have an interest in one of those companies, a part interest, and all I would do would be to make a guess, Mr. Chairman, about the price that might be charged to MSA or our Government because of adjustments out there.

I think maybe I had better not guess, but it would really be a guess and that is all.

The CHAIRMAN. In order that our record will be complete, I would like to read what Mr. Follis said before the Ways and Means Committee on May 13; he said:

> The American consumers of petroleum products, public, industry, and the military services, have the greatest possible stake in the proposed legislation. It is simply not in the interest of these millions of consumers to set up artificial import barriers. The consumer fares best as to the prices he pays for finished products when all potential raw materials sources can seek a market in all potential consuming areas.
>
> If heavy restrictions were placed on imports, B quotas, tariffs, or other controls, it should be obvious that artificial forces would be exerted in the direction of higher prices for crude oil and its products beyond those inherent to a free market.

I assume you agree with that.

Mr. PETERSEN. I share that view, Mr. Chairman.

The CHAIRMAN. I take it from Mr. Follis' objection to artificial forces, that Standard of California will not engage in any understanding to limit the amount of oil it will import.

Mr. PETERSEN. No. As a matter of our own policy, we would try and import the oil that we need, and I think once you enter into an arrangement with one of these countries, it is very difficult to stop the thing altogether. We try to bring our own company in balance with the amount of oil that we need to run our own operations.

The CHAIRMAN. Then you do not subscribe to the statement to which I referred a short time ago, that the increase "undoubtedly will lessen the pressure for immediate legislative action on the imports problem"?

Mr. PETERSEN. Yes.

The CHAIRMAN. Do you feel that there could possibly be any idea that the increase was done to do just that? I think that you have already answered "No."

Mr. PETERSEN. That is right; I have.

The CHAIRMAN. Would you feel that in the light of the supply situation and the many other factors being discussed here, that perhaps the increase would not stick much beyond the time that legislation could be considered here this year?

Mr. PETERSEN. I think this matter of supply that we have in this country is something that is very badly misunderstood, Mr. Chairman. We have got supposedly 1 million barrels of production capacity that the oil industry was asked by the Petroleum Administration for Defense to build up as a security measure for this country, and we are supposed to have that 1 million barrels. Maybe we do. I would not say that we do not. But I know that there are a great many oil people that seriously question the ability of this country to quickly produce that 1 million barrels of excess capacity.

Now, that is about 1 million barrels. We are producing now 300,000 barrels a day, and it is about a 16-percent reserve, and it is hardly any reserve at all. So that if we do have the 1 million barrels—and I hope we have it—to me it is very important that we keep it. In the light of what our present stock balances are and the amount of oil that the country is producing and the amount that we are consuming, I think that the adjustments that have been made have a very good chance of standing up in the light of the economic forces that are at work, and I think if those economic forces work to the point that we go into a surplus that the price will come down.

In California, where it is a little simpler, we have made our adjustments, on February 16, and it has been the result of bringing 12 million barrels of oil into California that has corrected our situation completely, and maybe we have got that price too high. It could be that if that oil continues to come in in quantities like that, it will be a measure that we, ourselves, will have to contend with, but I think that those things become easy to contend or deal with when they happen. At the present time the best thing we could have done on the Pacific coast was to make the adjustment we did.

The CHAIRMAN. Do you have any oil coming in from Mexico?

Mr. PETERSEN. No.

The CHAIRMAN. Is there any reason why you do not?

Mr. PETERSEN. The reason is that it has not been economic to get oil from the west coast of Mexico, Mr. Chairman. We have tried very energetically for the last year and a half to develop some sources of getting oil from the west coast of Mexico, but there is no means of taking it there, and to bring it from the eastern side of Mexico and come around through the Canal is not economic as compared to other sources.

The CHAIRMAN. Has not the pipeline across the Isthmus of Mexico, the southern portion of it, been completed?

Mr. PETERSEN. No. There are two pipelines that are across the Isthmus of Panama that I think you know of, but they are Government lines and for the transportation of products. That is the only pipeline that comes across that isthmus that goes down through the Caribbean.

The CHAIRMAN. I have often wondered, with the concern that is expressed about our ability to meet demand, especially in view of when an emergency may arise, why further consideration is not given among our companies that seem to be concerned about that question to the advisability of tapping, as it were, or making possible the tapping, of Mexican supplies.

Mr. PETERSEN. Well, it is a very real source and in the past 2 years out on the west coast it could have been just an invaluable help. Of course, you know of the pipeline that is coming from Alberta, that is coming out to Vancouver, and that does give us an overland pipeline outlet to the Pacific coast from a very substantial oilfield.

Incidentally, at the price that we have adjusted our California crudes to, it will just permit at the present price in California that oil to finally come to rest down in San Francisco.

The CHAIRMAN. Having in mind the hazards that exist in the transportation of oil across the oceans and from the Middle East and Venezuela or any other overseas area, it seems strange to me that we do not give some consideration to oil that could come into this country, especially in the hour of emergency, overland from Mexico by use of pipelines.

Mr. PETERSEN. Well, it would, of course, immediately jump that hazard of water transportation.

The CHAIRMAN. It would remove it.

Mr. PETERSEN. Yes; and that was the feeling back of the Canadian pipeline, that the Canadian pipeline could come across Canada and a refining center could be established up in the States of Washington or Oregon, and they would have that protection. There are two refineries that are to be built in the State of Washington within the next year and a half, and there is a pipeline coming down from Sumas, Wash., into the General Petroleum's new refinery at Ferndale, Wash. That will give them that protection at that point. That line is constructed ultimately to deliver, under its full load, from 200,000 to 300,000 barrels of crude a day, which would be quite a bit of crude out there on the Pacific coast.

The CHAIRMAN. In addition to the advantages of overland transportation from Mexico into this country to which I have referred, it seems to me that Mexico is in a particularly strategic position in view of the fact that by the transportation of oil by pipeline in its own country, it can be delivered either on the east coast or on the west coast; so that from a military standpoint it opens up, it seems to me, a very valuable situation that does not exist anywhere else in the world.

If the need arises, you can send it into the Atlantic or send it into the Pacific, as the occasion may require.

Mr. PETERSEN. That is happily the situation that we have with our neighbor at the north. They are in that position.

The CHAIRMAN. Are there any further questions, gentlemen?

Mr. HESELTON. Mr. Petersen, what is the average drilling of wells now in California?

Mr. PETERSEN. What is the average, you say?

Mr. HESELTON. How many wells are being drilled now, on the average?

Mr. PETERSEN. How many wells are being drilled by our company, you mean?

Mr. HESELTON. Well, who drills in California besides your company?

Mr. PETERSEN. I cannot answer that question, Mr. Heselton. I think the wells being drilled out there have some relation to what has been drilled in years past, but it is being done in almost desperation in California, because the people that are drilling those wells are not getting very much for them.

Mr. HESELTON. The reason I asked the question was that in your full statement you laid stress on the fact that the west coast wells were averaging about 200 a month since early 1951; and I understood your testimony to be that increasing the price was to stimulate that drilling activity. I wonder what your experience has been since there was the price increase?

Mr. PETERSEN. The production of California has gone up from about 985,000 barrels to, last week, around 1,016,000 barrels. Now, it has not come from new wells, but those are the facts as related to the production in California.

Mr. HESELTON. Could you supply, at your convenience, a statement of what the drilling is, the drilling per month, since the time of the price increase?

Mr. PETERSEN. The average number of wells that are being drilled each month?

Mr. HESELTON. Yes. I do not mean now, but to supply them to the committee.

Mr. PETERSEN. I have my assistant here, and he is making a note of these questions that you are asking, so I will not forget them.

(The information follows:)

Answer to question No. 5—Request for drilling per month in California since the date of the price increase, notices to drill new wells, California

	Monthly	Quarterly	Semi-annually		Monthly	Quarterly	Semi-annually
1952:				1953:			
January	208			January	254		
February	181			February	188		
March	277			March	232		
		661				674	
April	187			April	195		
May	234			May	225		
June	182			June	206		
		603	1,264			626	1,300
July	176						
August	226						
September	188						
		590					
October	182						
November	223						
December	184						
		589	1,179				

Source: Weekly Report, California State Division of Oil and Gas.

Answer to question No. 5—New well starts in California

	Monthly	Quarterly	Semiannually		Monthly	Quarterly	Semiannually
1952—January	197			1953—January	222		
February	209			February	196		
March	242			March	221		
		648				639	
April	191			April [1]	205		
May	237						
June	165						
		593	1,241				
July	192						
August	211						
September	211						
		614					
October	238						
November	208						
December	202						
		648	1,262				

[1] Last month for which data is available.

Source: American Petroleum Institute monthly summary of California oilfield operations.

Answer to question No. 5—Number of wells started by Standard Oil Co. of California and its subsidiaries in area affected by Feb. 16, 1953, price change

	Monthly	Quarterly	Semiannually		Monthly	Quarterly	Semiannually
1952:				1953:			
January	26			January	30		
February	25			February	23		
March	30			March	32		
		80				94	
April	26			April	34		
May	34			May	41		
June	18			June	31		
		80	160			106	200
July	17						
August	21						
September	32						
		70					
October	32						
November	37						
December	29						
		98	168				

Mr. HESELTON. You referred to the situation with reference to British Columbia where, as I understand it, you are still supplying considerable amount of the exports to that area. Will that be substantially changed when they get the pipeline running throught there?

Mr. PETERSEN. You mean will the Canadian oil bring a substantial amount of crude to the west coast?

Mr. HESELTON. Will it relieve the situation as far as the west coast is concerned?

Mr. PETERSEN. It will be certainly an insurance policy for them, and they have, I think, a program with that transmountain pipeline now under way that calls for placing between 75,000 and 115,000 barrels of crude initially in the pipeline.

They use in British Columbia something in the order of 35,000 barrels of crude oil a day in those refineries. When that happens, that 35,000 barrels of oil will be back out of California's supply, and whatever other amount of that oil comes down there will relieve that situation.

Mr. HESELTON. Is a natural-gas development in the western area going to offer any relief?

Mr. PETERSEN. Natural gas where?

Mr. HESELTON. On the west coast.

Mr. PETERSEN. Natural gas; you know that we are already importing from Texas 900 million cubic feet of gas a day; and let me say one thing about conservation laws. If we had a conservation law in California, we would not have wasted enough gas to run the whole economy of the west coast some 4 years; we just blew that in the air. That happened some time ago. But we have lost the ability in California to supply the natural gas that the State of California requires, and we are now bringing in the State about 900 million cubic feet a day, and that is being enlarged I understand to a billion three hundred million almost immediately.

Mr. HESELTON. I am interested in the tabulation as to details on west-coast exports. There is a substantial portion of it that went to Japan.

Mr. PETERSEN. Yes, sir.

Mr. HESELTON. Is that a traditional supply to Japan?

Mr. PETERSEN. Yes; and the thing that constitutes most of that supply, Mr. Heselton, is the fuel oil that goes over there, and that largely supplied is low-sulfur fuel that goes into the tile plants there. There is quite a movement there to Japan, and it goes there of course under the regulations that apply to the importation of petroleum products to Japan.

Mr. HESELTON. It is a historical factor and not just a postwar matter?

Mr. PETERSEN. Before the war we had, several of the companies on the Pacific coast, a major investment in Japan and endeavored to build that market up as a source of supply for their own crude production.

Mr. HESELTON. One final question has been suggested to me. Does Standard of California own Calso?

Mr. PETERSEN. Yes.

Mr. HESELTON. What is the situation with reference to any increase in price on that?

Mr. PETERSEN. We have Calso that operates on about, as I recall, 35 or 40 percent of Gulf-coast crudes, and we are paying that increased price for those Gulf-coast crudes, and I think some 15 or 20 percent of Venezuelan crudes, and the balance of Arabian crudes. Of course, those crudes are coming through at the present time under the present Arabian price.

Mr. HESELTON. I did not understand the last part of your answer.

Mr. PETERSEN. Those Arabian crudes are coming through at the present time under the present Arabian price.

Mr. HESELTON. And that is not changed?

Mr. PETERSEN. It has not increased as yet.

Mr. HESELTON. Do you anticipate an increase in that?

Mr. PETERSEN. That is the question that I spoke of a moment ago, and I would have to guess on that. As I say, the historical fact is that

the Middle East crudes over a period of the last 6 or 7 years have not borne too close or direct a relationship to the price of crudes in this country, because the importation factor is so small. As I say, it is about 3 percent of the crude used here.

Mr. HESELTON. I think that I saw a comment in possibly the Journal of Commerce or possibly the New York Times that the people in charge of the Venezuelan oil were conferring because they were fearful that if the Venezuelan price did not come up to meet this 25-cent increase, it would mean a very substantial amount of sales in this country, increasing pressure to put that oil in this country against the domestic oil, and once it gets in there, you have the cries against the import situation that we heard particularly this year in Congress.

Do you know anything about what is happening on the Venezuelan situation?

Mr. PETERSEN. No; we are a very small producer of crude in Venezuela, and we have some 15 or 16 thousand barrels of a very heavy crude that is full of sulfur and vanadium, and it is one of the things that manufacturing people do not like to get a hold of. We put a good many million dollars into Venezuela, and up to this point we have not gotten much of it back. That depletion allowance provides the money to look around for oil like that. But I am not familiar enough with the working of that problem.

Mr. HESELTON. Are there any further questions?

Mr. HARRIS. First, as Mr. Wolverton, the chairman of the committee, complimented Mr. Keeler a moment ago, and in which I would like to share, I want to compliment you, Mr. Petersen, also, for the very fine presentation you have made here in discussing the problems and answering the questions.

I just wanted to ask this one question: How much did you increase the price of crude to California in February?

Mr. PETERSEN. In the month of February?

Mr. HARRIS. Yes. You said you increased the price of crude.

Mr. PETERSEN. We increased the price of crude on February 16, and we have, I think it is a little better to give you the amount of products that have come in there since that time. We have increased our petroleum supply in the matter of 12,900,000 barrels in the 4½ months that that price adjustment has been in effect.

A great part of that, 35,000 barrels a day of it, Mr. Harris, has come from the gulf where we have been able to bring gasoline which was in terrific short supply in California.

Mr. HARRIS. Now, was that crude you brought in?

Mr. PETERSEN. It was both crude and finished products.

Mr. HARRIS. Well, there has been talk about a 25-cent posted price increase of crude by Phillips and other companies as of June 15, and how much increase in price did you post?

Mr. PETERSEN. We posted a price ranging from 10 cents on 14-gravity crude to 35 cents to 50 cents on 35-gravity crude.

Mr. HARRIS. In other words, your increases in prices during the month of February were 10 cents for low gravity and as high as 50 cents per barrel on high gravity?

Mr. PETERSEN. On an average of 31 cents for the whole rounded-out crude situation.

Mr. HARRIS. And 31 cents per barrel, an average of 31 cents per barrel increase in the price of crude, that was the result of your action?

Mr. PETERSEN. Yes, sir.

Mr. HARRIS. And that was in February?

Mr. PETERSEN. That is right.

Mr. HARRIS. It is a very strange situation that we have not heard such a great howl about it until the other companies increased their price on June 15. We have heard so much complaint about the necessity of increasing the price.

Mr. PETERSEN. We had some people who spoke out and said they did not like to see an increase in the price of petroleum products, particularly after our OPA had just removed the restrictions against such price objections, but we made it a point to contact all of those people and tell them why we did those things, and, as I said earlier, we came back here to Washington and tried to tell all of you people that would be interested in that subject why it was done.

Mr. HARRIS. But you have just given a very fine example of how the economic factors of supply and demand and the cost of the product work under our system, have you not?

Mr. PETERSEN. I do not think you could find a better example, Mr. Harris, because 4½ months have taken care of a very terrific deficit.

Mr. HESELTON. Are there any further questions?

If not, on behalf of the committee, I do want to thank you for coming here and giving us the benefit of your testimony. We appreciate it very much.

I would like to ask one concluding question. Does Standard Oil of California sell to independent dealers under a brand name?

Mr. PETERSEN. We sell to independent dealers under our brand name of Sherbrune, and we have perhaps 8,000 dealers out there on the coast.

Mr. HESELTON. I understand you do operate quite a number of service stations through a wholly owned subsidiary.

Mr. PETERSEN. We operate under salaried operation, something on the order of 1,100 or 1,200 service stations.

Mr. HESELTON. And in that case of those service stations there was a price increase, in February, was there not?

Mr. PETERSEN. Yes, sir.

Mr. HESELTON. How much was that?

Mr. PETERSEN. That price increase averaged about half a cent more than the tank-wagon price, Mr. Heselton. That tank-wagon price was adjusted to 1½ or 1⁹⁄₁₀ cents depending upon the particular area that the adjustments were made in. We had not recovered a freight cost in certain areas and so the tenth of a cent difference was a result of that.

There was another half a cent that was added to the service-station price, but a great many dealers out on the west coast having been controlled on their prices for so long, went away beyond that, and some of them went up as much as another cent, and I think in a few cases a little more than that.

Mr. HESELTON. That would be a cent and a half or a 2-cent increase in the retail price?

Mr. PETERSEN. In some districts it actually reflected an increase of more than 3 cents, because of that action.

Mr. HESELTON. Has there been any adjustment of that at all since that time, since February?

Mr. PETERSEN. Well, there is almost a constant adjustment of that. We gave these service stations of ours the right to meet competition pretty well, delegated down to a superintendent, that is in a rather closely confined area, and that superintendent has the authority to have his station sell gasoline at about the competitive level that exists in his area there.

So that those prices are changing, I think, rather quickly; and in Los Angeles you will find 5 or 6 prices in that city, because of different prices that dealers are posting.

I wanted the chairman to hear that because he spoke of four stations that he never sees charge anything but the same price; but I am sure that I could show him a lot that do not do that.

Mr. HESELTON. We will tell him that, because he is very much interested in that phenomenon that he has witnessed and I have witnessed, and I am sure my other colleagues have witnessed, this identical price around a traffic circle. It poses quite an economic question and perhaps a philosophical one.

Mr. PETERSEN. Where this applies it is in the areas that, of course, are in different sections of the country, and there is a different competitive situation there.

Mr. YOUNGER. I might suggest that perhaps the committee appoint a subcommittee to come out to California, Mr. Petersen, and study the proper sales method of an integrated company out there.

Mr. HESELTON. I know Mr. Younger is very proud of that organization there.

Mr. PETERSEN. We would be glad to have you come out there.

(The exhibit presented by Mr. Petersen follows:)

A STATEMENT BY STANDARD OIL CO. OF CALIFORNIA ON CRUDE OIL AND REFINED PRODUCT PRICES, FEBRUARY 16, 1953

The price and supply of petroleum products is of direct concern to all of us. We therefore feel you are entitled to know the facts that made necessary our price revisions of February 16, 1953.

This review has been prepared to present the chronology of official and other actions which established the need for increased prices to provide essential petroleum supplies to the west coast shortage area.

The price controls imposed by the Office of Price Stabilization in January 1951 froze unrealistic prices as ceilings for crude oil and products.

The unrealistic price ceilings interrupted the whole petroleum cycle, from exploration for new oil and production on through to retail distribution. In the face of mounting demand, shortages accumulated.

These price levels failed to provide the incentive for increased production, secondary recovery, development of marginal supplies, or for economic importations of crude and products, thus aggravating the shortages.

Practically from the beginning of price control in January 1951, to the decontrol of petroleum February 12, 1953, the shortage in California and its relationship to ceiling prices has been under consideration by defense and stabilization agencies which repeatedly found:

(*a*) That a shortage of crude oil and products exists on the west coast.

(*b*) There must be price incentive to stimulate production and to attract necessary supplies as needed.

(*c*) That increased crude oil prices required fully compensating increases in product prices, to preserve a balanced relationship particularly for the operation of independent refiners.

(*d*) The various official findings added up to an eventual conclusion that price controls were "unsatisfactory and unworkable." To meet the critical California situation, immediate decontrol was decided upon as the best solution.

The shortage, the necessity for price increases and their urgency are all well-documented by official reports made by various governmental agencies and in public statements by representative oilmen and public officials. To outline the record of statements and developments, a calendar of significant dates and events leading up to the decontrol of petroleum and the subsequent price increases of February 16 is provided in this brochure.

Also included is a copy of the report made to OPS on November 13, 1952, by the Petroleum Administration for Defense. This details the facts supporting the economic necessity for the increases. Comparisons with advances of other commodities and the generally accepted price indices also are shown in appended charts.

Prices are now being charged at the retail level which exceed the wholesale advances. Such additional increases, largely initiated by independent service-station operators, are the result primarily of increased labor expense—the principal cost factor in retail gasoline distribution.

In decontrolling petroleum, the highest defense and mobilization authorities concluded that "free and competitive prices best serve the interests of all the people and best meet the changing, growing needs of the economy." The intended amount of price increases had been indicated to defense and stabilization agencies before decontrol was ordered. Various published statements of both Government and oil industry officials showed that increases were expected on the west coast following decontrol, as a normal result in the working of a free market.

We sincerely hope that the increased prices will develop the supplies needed to remove the shortage.

SIGNIFICANT DATES AND EVENTS RESULTING IN THE DECISION TO DECONTROL PETROLEUM, AND RESULTING WEST COAST CRUDE AND PRODUCTS PRICE INCREASE OF FEBRUARY 16, 1953

December 6, 1950: Standard announced it was importing its first cargoes of crude petroleum from Sumatra, expected to arrive in January 1951. These importations were necessary because of the inability to secure adequate supplies of crude petroleum locally (Platt's Oilgram, Dec. 6, 1950).

December 8, 1950: The oil industry was requested to voluntarily "hold the price line" existing at this date (ESA telegram to individual companies, Dec. 18, 1950).

January 25, 1951: OPS ceiling price regulations freezing existing prices imposed (White House announcement, Jan. 25, 1951).

May 1951 to March 1952: Many informal and formal discussions of OPS national and regional officials with Pacific Coast suppliers and OPS West Coast Petroleum Wholesale Industry Advisory Committee on the adequacy of California supplies and the effect of ceiling prices on such supplies (Platt's Oilgram and Oil Daily, May 1951 to March 1952).

March 26, 1952: Union Oil Co., of California filed application for increased crude oil ceiling prices with OPS (San Francisco Examiner, Mar. 26, 1952).

April 22, 1952: California Crude Oil Producers Committee filed application for ceiling price relief with OPS (Oil Daily, Apr. 23, 1952).

July 30, 1952: Initial Petroleum Administration for Defense Report to OPS. This was prepared at OPS request and stated that shortage of petroleum exists on west coast and adjustment of price ceilings would tend to alleviate it (PAD release 26485, Aug. 27, 1952).

August 15, 1952: PAD officials visited Pacific coast to determine seriousness of existing shortage of petroleum on the Pacific coast with particular reference to the danger to the defense program (Oil Daily, Aug. 17, 1952).

August 18, 1952: Standard of California filed application for adjustment of crude and product ceiling prices.

September 23–24, 1952: OPS Washington, D. C., officials held initial formal meeting with West Coast Wholesale Industry Advisory Committee to investigate the effect of ceiling prices on California supplies of crude petroleum and products (Oil Daily, Sept. 26, 1952; summary minutes of 10th meeting of advisory committee).

October 6, 1952: OPS requested PAD again to study the supply situation on the Pacific coast in view of applications filed for ceiling price increases and discussions of problem by PAD/OPS officials with Pacific coast suppliers (OPS letters of Oct. 6 and 20, to PAD).

November 13, 1952: PAD replied to OPS request of October 6 and 20 with the conclusion that a west coast shortage of crude and products existed and that until ceiling prices were increased inadequate incentive existed for develop-

ing locally or importing necessary supplies. Furthermore, any increased crude oil ceiling prices required full compensating product price increases, particularly for the economic survival of independent refiners. (This PAD report so adequately states the complete story of the west coast shortage and the necessity for price relief that it is reproduced in full in the second section of this brochure.)

December 8, 1952: OPS Petroleum Branch concluded its investigation of the problem and recommended a schedule of increased ceiling prices to alleviate the shortage (Oil Daily, December 9, 1952). (In essence, the increases in prices announced by Standard on February 16, 1953, conform to the recommended price increase of OPS Petroleum Branch.)

December 15–17, 1952: OPS Washington, D. C., officials held second meeting with West Coast Petroleum Industry Advisory Committee for purpose of considering recommended schedule of increased ceiling prices (Oil Daily, December 22, 1952; Summary Minutes of Eleventh Meeting of OPS Advisory Committee).

December 31, 1952: The San Francisco regional director of OPS stated a west coast gasoline price increase is in prospect. He said if OPS continues past its April deadline, it will grant the increases sought in pending applications; if OPS is killed, industry will be free to raise prices (San Francisco News, December 31, 1952).

January 7, 1953: OPS regional office concluded its study and reported to Washington, D. C., that—

(*a*) A shortage of petroleum products exists.

(*b*) The shortage is caused by increased demand occasioned by population growth and increased military demand in the Pacific, with the result that the demand in the area will continue to exceed production of crude from within the area.

(*c*) The solution to shortage is development of new supplies by exploration, stimulation of marginal production and secondary recovery and increased importation.

In commenting on the manner of achieving the solution, OPS was of the opinion that "if there was no control of prices, an attempt would be made by industry to find the size of price increase it will take to encourage wildcatting, developing, and secondary recovery work; however, these increases in posted crude prices, unless accompanied by a corresponding increase in price of refined products, would have the effect of squeezing the independent refiners and thus probably result in less, rather than more refinery input. The amount of any increases in the prices of refined products actually put in effect would be dependent upon prices established in other producing districts based upon the supply condition existing within these areas" (Office of Price Stabilization Region XII Analysis and Report on Ceiling Prices of Crude Oil and Petroleum Refined Products, January 7, 1953).

(*d*) The regional office concluded that since the problem involved considerations beyond OPS, the entire matter "should be referred to the highest policy level in the Defense Mobilization Agency." It said that increase in petroleum products prices would result from decontrol.

January 15, 1953: OPS, Washington, D. C., concluded that by its standards it could not grant increases requested, but that the problem should be opened to interagency discussions (New York Journal of Commerce, January 16, 1953).

January 29, 1953: Interagency meeting held in Washington, D. C., by Economic Stabilization Agency, attended by representatives of OPS, Munitions Board, PAD, Armed Services Petroleum Purchasing Agency, and ODM. At the meeting, it was concluded a shortage existed and that further study and final action might be taken by the highest agency—the Office of Defense Mobilization (Platt's Oilgram, January 29, 1953).

February 2, 1953: President Eisenhower's state of the Union message on the subject of controls concluded: "The weight of evidence is clearly against the use of controls in their present form. They have proved largely unsatisfactory or unworkable. I am convinced that now, as well as in the long run, free and competitive prices will best serve the interest of all the people and best meet the changing, growing needs of our economy. Accordingly, I do not intend to ask for a renewal of present wage and price controls on April 30, 1953, when present legislation expires. In the meantime, steps will be taken to eliminate controls in an orderly manner and terminate special agencies no longer needed for this purpose. It is obviously to be expected that the removal of these controls will result in individual price changes, some up, some down. A maximum of freedom in market prices, as well as in collective bargaining, is characteristic of a truly free people."

February 4, 1953: Petroleum Administration for Defense recommended to ODM the immediate elimination of controls on petroleum products, pointing out among other things that price ceilings had been an impediment to supply and that such problems will be readily solved by immediate decontrol of all crude and product prices (J. E. Warren, February 4, 1953, letter to A. S. Flemming).

February 11, 1953: ODM concluded that petroleum should be decontrolled immediately. A strong factor was the west coast petroleum problem (Platt's Oilgram, February 12, 1953).

February 12, 1953: OPS decontrolled petroleum products by issuance of General Overriding Regulation 12, Revision 1. Mr. Joseph A. Freehill, Chief of OPS, referred to pending petitions for higher oil prices and stated he expected increases in prices of crude oil and products on the Pacific coast (Oil Daily, February 13, 1953).

February 16, 1953: Consistent with the long effort to obtain ceiling-price adjustments and relieve the shortage, Standard Oil Co. of California announced its new schedules of crude oil and wholesale product prices. (A digest of Standard's explanatory remarks relative to the price increase is attached.)

DIGEST OF PRICE REVISION ANNOUNCEMENT BY STANDARD OIL CO. OF CALIFORNIA

Standard Oil Co. of California announces that with the opening of business Monday, February 16, it is increasing the price it pays for crude oil by from 10 to 50 cents a barrel.

At the same time, the wholesale prices of finished products also will be raised. The price of motor and aviation gasolines will be increased generally 1.6 cents a gallon; heating oil and diesel fuels, 1.8 cents a gallon, and heavy residual fuel oils 10 cents a barrel. At some outlying points, due to local conditions, the increase in wholesale prices is less than these general amounts.

In addition to these increases in wholesale prices, retail posted prices of gasoline also will be generally increased an additional one-half cent a gallon, to partially cover increased costs of service-station operation. Retail-price increases of more than a half-cent, however, will be made in some areas to compensate for special local conditions.

"Petroleum prices on the west coast should have been increased long ago to assure adequate supplies," said T. S. Petersen, president of Standard. "These are very necessary and long-overdue adjustments.

"Petitions for price increases have been on file with the OPS for many months, without final action. Our company's was filed last August.

"These petitions were based primarily on the fact that there is and has been a serious crude-oil shortage in the market served from the California oilfields. This has long been recognized by the Petroleum Administration for Defense, which recommended price increases last November.

"Inadequate ceiling prices have been the cause of this shortage of California crude oil. While other prices have been going up, there has been no general increase in petroleum product prices since October of 1950.

"For several months, we and other companies have been forced to import large quantities of crude oil from foreign sources to partially meet the California shortages. If these imports hadn't been made, the west coast supply situation would have been critical.

"Prices for both crude oil and finished products should be at a level sufficiently high to stimulate west coast production to provide more local supplies: to encourage development and production of marginal properties; to stimulate more secondary recovery from existing fields, and to attract adequate supplemental supplies from outside sources as needed."

The area covered by product price changes includes the five Pacific Coast States and the Territories of Alaska and Hawaii.

The crude-oil price increases are scaled from 10 cents a barrel for heavy crude of 14 gravity and below to 50 cents for 35 gravity and above.

DEPARTMENT OF THE INTERIOR,
PETROLEUM ADMINISTRATION FOR DEFENSE,
Washington 25, D. C., November 13, 1952.

Mr. E. E. FOGLE,
Director, Rubber, Chemicals, Drugs, and Fuels Division,
Office of Price Stabilization, Washington 25, D. C.

MY DEAR MR. FOGLE: Your letters of October 6 and 20, 1952, ask the Petroleum Administration for Defense for an analysis on applications submitted by the

Standard Oil Co. of California and the Union Oil Co. of California for an increase in California crude oil and refined products ceiling prices.

We have reviewed these applications. I enclose herewith a memorandum of conclusions addressed to me from the Assistant Deputy Administrator for Domestic Operations, together with an accompanying statement more fully discussing the pertinent economic factors with respect to the applications.

Sincerely yours,

J. ED WARREN,
Deputy Administrator.

DEPARTMENT OF THE INTERIOR,
PETROLEUM ADMINISTRATION FOR DEFENSE,
Washington, D. C., November 13, 1952.

Memorandum to: J. Ed Warren, Deputy Administrator.

From: C. E. Davis, Assistant Deputy Administrator, Domestic Petroleum Operations.

Subject: Requests for comments on applications received by OPS from Standard Oil Co. of California and Union Oil Co. of California, requesting adjustment of ceiling prices for crude petroleum produced in the State of California and for products derived therefrom.

Our review of the applications submitted to OPS by Union Oil Co. of California and Standard Oil Co. of California results in the following conclusions:

I. There is a shortage of both crude oil and products on the west coast. The seriousness of the shortage is indicated by the fact that the military has been forced to purchase approximately 37 percent (50,000 barrels daily) of its west-coast requirements from United States gulf coast and Caribbean ports at a substantial increase in cost by reason of the abnormal transportation expense incurred. This is both an abnormal and uneconomic operation for the military and is not in the best interests of national security and the national-defense effort. The shortage would have been greater if several west-coast refiners had not imported approximately 37,000 barrels daily of crude oil from foreign sources at excessive cost. It is evident that even this extraordinary and uneconomic movement of crude was insufficient to permit military demands to be met.

II. The west-coast shortage can be relieved only by increased development, exploratory and secondary recovery operations, and by the importation of additional quantities of crude oil and finished products from other areas, foreign and domestic. Until crude-oil ceiling prices and the ceiling prices for products are increased, there will be inadequate incentive for such development operations or importations. An adverse effect from existing crude and product prices on the west coast is the fact that since early 1951 the well-drilling rate in California has been considerably less than in former years when prices were higher and responded to the dictates of supply and demand.

III. The completion of the Trans-Mountain Pipeline, supplying Alberta crude to the British Columbia market, will reduce demands against California crude production, when available in 1954, by an estimated 35,000 barrels daily, refined in the Vancouver area. Beyond this, Alberta crude for movement to California is not competitive with current west-coast ceiling prices. The laid-down cost of Venezuelan, Middle East, and United States gulf-coast crude oil in California is substantially in excess of established indigenous crude oil prices. Importation of crude oil from these, and other sources, into California will not be competitively and economically possible unless prices on the west coast are increased sufficiently to permit such imports without financial loss.

IV. An increase of west-coast crude-oil ceiling prices will require a fully compensating increase in product prices, particularly for the economic survival of independent refiners.

V. The geographical position and the historical operating pattern of the petroleum industry on the west coast are such that ceiling-price adjustments for California crude oil and for west-coast petroleum products would neither create a shortage in any other area, nor in itself create a need for an increase of ceiling prices for crude or products in any other area.

VI. The current shortage of both crude oil and products on the west coast would be greatly alleviated by removal of price control or by such adjustment of such prices as would permit and encourage the production and importation of crude and products to meet all demands, military and civilian.

There are technical factors bearing upon the varying economic values of various gravities of crude oil and corresponding product prices relationships which

we have not discussed, because we do not understand that these matters are within the scope of the requests from OPS.

Attached hereto you will find a statement more fully discussing the details upon which the foregoing conclusions are based.

C. E. DAVIS,
Assistant Deputy Administrator, Domestic Petroleum Operations.

STATEMENT WITH RESPECT TO APPLICATIONS FOR CEILING-PRICE ADJUSTMENTS FOR CALIFORNIA CRUDE OIL AND PETROLEUM PRODUCTS

The applications of the Standard Oil Co. of California dated August 15, 1952, and of the Union Oil Co. of California dated October 10, 1952, addressed to the Office of Price Stabilization, Petroleum Branch, have been reviewed in accordance with the requests received from Mr. E. E. Fogle, Director, Rubber, Chemicals, Drugs, and Fuels Division of the Office of Price Stabilization, transmitted to us in your letters dated October 6 and October 20, 1952, respectively. Each of these applications seeks an increase of the present ceiling prices for crude oils and refined products in the west-coast area of the United States (PAD District V), pursuant to appropriate sections of CPR 32 and CPR 17.

There is, at the present time, unquestionably a shortage of indigenous crude oil and of "light" products, i. e., motor gasoline and distillate products, on the west coast which adversely affects our military effort and the national-defense program. The shortage is caused primarily by the impact of the extraordinary military and national-defense demands. As a direct result of the shortage of indigenous crude and of products, the military has been forced to purchase in excess of 37 percent (approximately 50,000 barrels daily) of its west-coast requirements at gulf-coast and Caribbean ports, at high cost, due to abnormal transportation expense.

The shortages of indigenous crude and of products obtained therefrom has required several refiner-suppliers to import from other areas, principally the gulf coast, the Middle East, and the Netherland East Indies, substantial quantities of crude oil at excess cost, in order to permit these refiner-suppliers to meet outstanding commitments for refined products. These abnormal imports reached a peak of 71,000 barrels daily in August 1952, made up of 45,000 barrels daily from Saudi Arabia, 14,000 barrels daily from Venezuela, and 12,000 barrels daily from Sumatra. The delivered cost of all of this crude is substantially in excess of the ceiling price for indigenous crude. It is probable that these abnormal import operations will be discontinued as the commitments which require them are fulfilled.

It is estimated that the delivered cost in California of Middle East, Venezuelan, or United States gulf crude is at least 65 to 75 cents per barrel in excess of the established California crude ceiling price even at the most favorable long-term transportation rates ogtainable, and at short-term transportation rates, the excess would be substantially higher than $1 per barrel.

Attached you will find charts setting forth PAD's estimates for the years 1952, 1953, and 1954 with respect to supply and demand, details of demand, and details of west-coast exports.

Our calculations indicate that the total supply will fall short of demand by 63,000 barrels daily in 1953 and 45,000 barrels daily in 1954. The shortages will be primarily in gasoline and distillates to the extent of 62,000 barrels daily in 1953 and 51,000 barrels daily in 1954.

Residual fuel oils will be available during these years in volumes slightly in excess of demand. Military requirements for residual fuel oil in 1953 and 1954 are estimated at 55,000 barrels daily, but it is doubtful that cutter stock will be available on the west coast to manufacture the volume of Navy special fuel oil included in these estimates. On the basis of the estimated shortages of light products the United States west coast will require an additional 90,000 barrels daily of light (34° to 35° gravity) crude in 1953 and 75,000 barrels daily in 1954. The decline in requirement of light gravity crude in 1954 is based upon the expec-

tation that British Columbia product needs, normally supplied from California, will be met by Alberta crude, delivered through the Trans-Mountain Pipe Line and refined in the vicinity of Vancouver, British Columbia. We have not taken into consideration the installations of new refining capacity in the United States Pacific Northwest since completion of any such capacity would be beyond the period of time considered in this report.

Production statistics indicate that California crude-oil production and exploratory activity is substantially behind the place it has historically held with respect to the activities in other producing areas of the United States. The ceiling price of California crude oil established early in 1951 does not furnish an adequate incentive for development of existing fields and for exploration in new areas. This is particularly so since, in general, the average cost of finding, drilling, and producing oil is higher in California than the average for the rest of the United States.

Crude production in the United States as a whole has increased from approximately 5,900,000 barrels daily in the beginning of 1951 to approximately 6,500,000 barrels daily at present, or an increase of 10.16 percent. In contrast, California crude production has increased from 960,000 barrels daily in early 1951 to 985,000 barrels daily at present, or a rise of only 2.60 percent. Historically, in periods of high crude-oil demand in the United States, California has produced 18 percent of United States output, but in the present period of high demand it has a developed capacity to produce only 15 percent of total United States output. The United States has a reserve capacity to produce, whereas California is producing at its full capacity, and the drilling rate has not been sufficiently high to adequately increase its capacity to produce. The rate of drilling new wells on the west coast has averaged 200 wells per month since early 1951, which is 16.67 percent below the average of 240 wells per month in 1948, when average crude-oil prices were higher than at present and responded to supply and demand. In contrast, the average drilling rate for the United States since early 1951 is at an all-time high of 3,785 wells per month which is 14.35 percent in excess of the 1948 drilling rate.

There is relatively little activity in secondary recovery projects in California. It is believed that an increase in crude ceiling prices is essential to stimulate and to provide an incentive for added exploratory efforts, development drilling, and secondary production.

The availability of crude transported from Alberta through the Trans-Mountain Pipe Line, upon its completion late in 1953 or early in 1954, will alleviate the demands against California crude oil to the extent that it will make Alberta crude oil available to the British Columbia market, previously served by California. This crude will not be competitively available to California refineries under existing price ceilings.

Venezuelan, Middle East, and United States gulf crudes are considerably less competitive than Alberta crude and an adequate price adjustment to permit economic importation of these crudes should immediately stimulate importation of the required quantities to meet overall demands.

In our opinion, it is axiomatic that an increase in crude ceiling prices must be compensated for by corresponding increases in the products refined from such crude.

It is imperative for the protection of the independent refiner that, if crude ceiling prices are increased, product prices must also be increased. In the event of a crude price increase without a compensating product price increase, it would be economically impossible for independent refiners to purchase crude at such increased prices and absorb the excess cost against the current finished products ceiling prices.

Higher ceiling prices for light products on the west coast would also tend to stimulate westward movement of such products overland from district IV (principally from refineries in Utah, Wyoming, and Montana), and from the western part of district III (refineries at El Paso, Tex., and vicinity).

The foregoing analysis has not taken into account the possibility of additional crude supplies being derived from Elk Hills. The military, with congressional approval, probably could end the immediate shortage by opening up Elk Hills production to the extent necessary to meet the present military demands.

Technical factors bearing upon the relative economic values of various gravities of crude oils and products derived therefrom have not been discussed, because we do not understand this to be within the scope of the OPS request.

In conclusion, we believe that the national security and our mobilization effort would be advanced by increasing indigenous production on the west coast and by utilizing the existing spare refining capacity. An appropriate price increase for California crude, complemented by appropriate price increases for refined products, can be expected to achieve these ends by alleviating the existing shortage of local production through stimulation of development and wildcat drilling operations, the encouragement of secondary recovery operations and the encouragement of importation of crude oils and products.

In our opinion, a price increase for California crude oil and for its products would not, in itself, create, or tend to create, a shortage or a need for an increase in prices in any other geographical locality, and will, to the extent that it stimulates additional production, effectuate the purpose of the Defense Production Act of 1950. In the absence of major distortions in the supply and distribution patterns of the petroleum industry, California crude-oil prices can be expected, normally, to rise or fall according to west-coast supply and demand, largely independent of such factors in other areas of the United States.

It is our conclusion that existing crude-oil prices on the west coast adversely affect its crude-oil productive capacity and the supply of products in that area. We believe that the present shortages of west-coast crude oil and products would be relieved if their current prices should be decontrolled or increased sufficiently to encourage additional indigenous production and the competitive and economic importation of crude and products from other areas.

TABLE I.—*Estimated west coast [1] petroleum situation (excluding imports), 1952–54*

	1952	1953	1954
Supply:			
Crude production or forecast	981,000	990,000	1,000,000
Producibility [2]			
Natural gasoline and other raw materials	82,000	83,000	84,000
Receipts of United States crude from other areas	9,000	5,000	5,000
Receipts of products from other United States areas	33,000	32,000	35,000
Total domestic supply	[3] 1,105,000	1,110,000	1,124,000
Demand:			
Civilian domestic	924,000	950,000	968,000
Exports and intercoastal shipments	89,000	80,000	58,000
Military [4]	135,000	143,000	143,000
Total demand	1,148,000	1,173,000	1,169,000
Surplus or (shortages)	(43,000)	(63,000)	(45,000)

[1] West coast includes Washington, Oregon, California, Nevada, and Arizona and Alaska and Hawaii.
[2] Excludes Elk Hills except for small operational production.
[3] The total supply shown does not include 37,000 barrels per day of foreign crude imports.
[4] 37 percent, or 50,000 barrels per day of total west coast military demand was purchased at United States Gulf and Caribbean ports.

West coast refining capacity and crude runs 1952–54

	1952	1953	1954
Crude refining capacity as of Jan. 1, 1952	1,173,000	1,219,000	1,246,000
Crude runs	994,000	975,000	995,000

TABLE II.—*Details of west coast demand, barrels per day, 1952–54*

[Thousands of barrels per day]

	1952	1953	1954
Civilian domestic demand: [1]			
All gasolines, including naphtha	386	400	413
Kerosene and distillates	146	151	156
Residual fuel oil	270	274	272
All other	122	125	127
Total	924	950	968
Exports and intercoastal shipments:			
Crude	19	14	2
All gasolines	12	11	8
Kerosene and distillates	9	8	4
Residual fuel oil	40	38	36
All other	9	9	8
Total	89	80	58
Military: [2]			
All gasolines	34	71	71
Distillates	8	15	15
Residual and Navy special fuel oil	42	55	55
All other	1	2	2
Total	85	143	143
Total demand	1,098	1,173	1,169

[1] Includes Alaska and Hawaii together with rail and truck shipments to other States.
[2] Liftings basis in 1952. Estimated requirements in 1953–54.

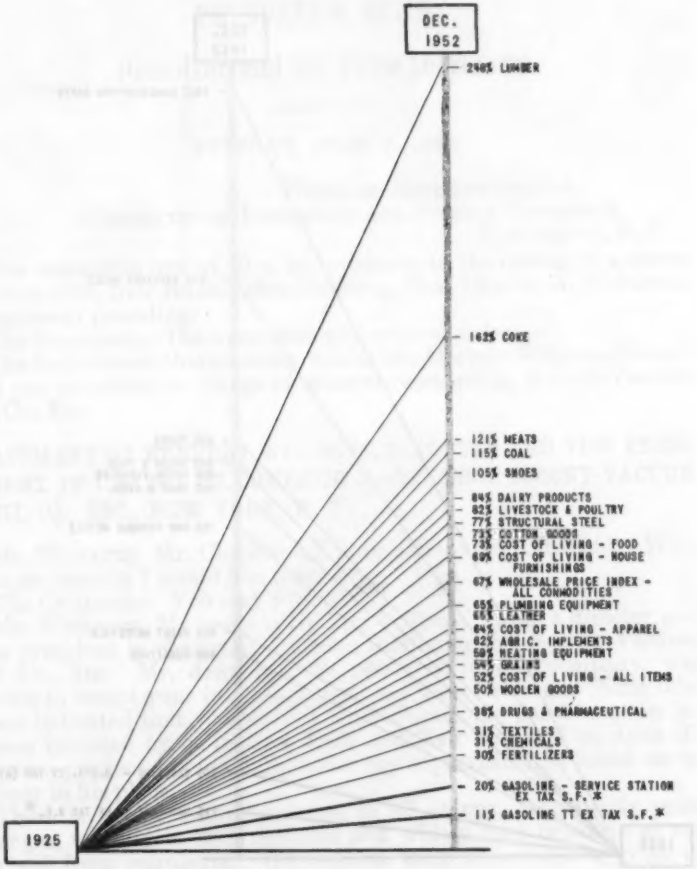
TABLE III.—*Details of west coast exports, barrels per day, 1952–54*

[Thousands of barrels per day]

	1st quarter	2d quarter	3d quarter	4th quarter	Year	1953	1954
Exports by destination:[1]							
Crude oil:							
British Columbia	17	19	19	17	18	11	-------
Total	19	20	21	20	20	14	3
Natural gasoline: British Columbia and total	1	1	1	1	1	1	1
Gasoline (other):							
British Columbia	4	5	6	5	5	-------	-------
West coast of Mexico	5	6	6	5	5	-------	-------
Total	9	11	12	11	11	10	7
Distillates:							
British Columbia	8	4	4	7	6	-------	-------
West coast of Mexico	1	-------	-------	1	-------	-------	-------
Central America	1	-------	-------	1	-------	-------	-------
Japan	2	-------	-------	-------	-------	-------	-------
Total	12	5	5	10	8	8	4
Residual:							
British Columbia	13	13	13	13	13	-------	-------
West coast of Mexico	5	5	5	5	5	-------	-------
Central America	3	1	1	1	1	-------	-------
Ecuador, Chili, Peru, and Bolivia	4	3	1	2	2	-------	-------
Australia and New Zealand	4	2	1	2	2	-------	-------
Japan	13	16	13	13	14	-------	-------
Total	47	42	34	36	40	39	36
Other products	10	14	12	12	12	10	9
Total, crude and products	98	93	85	90	92	82	60

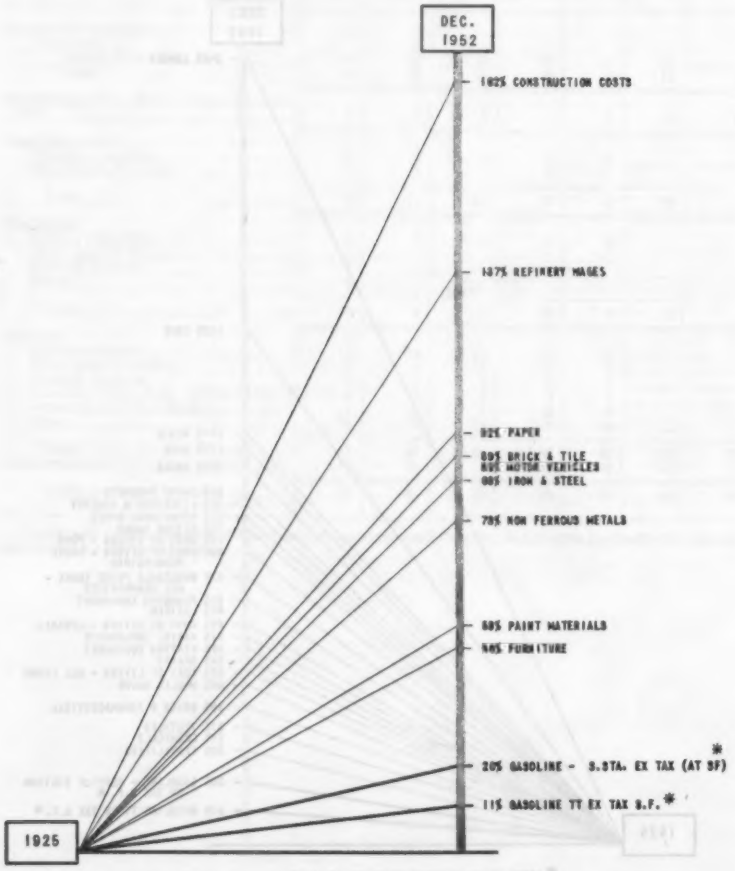
[1] Exports by destination from Department of Commerce and therefore do not agree precisely with exports as reported by Bureau of Mines.

COMPARISON OF PRICE INCREASES
(Wholesale & Cost of Living Indexes)



*AFTER PRICE INCREASE FEBRUARY 16, 1953

COMPARISON OF TYPICAL COSTS WITH COST OF GASOLINE
1925 - 1952



* AFTER PRICE RISE FEBRUARY 16, 1953.

Mr. HESELTON. The committee will now adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 5:35 p. m., the committee adjourned until 10 a. m., Tuesday, July 7, 1953.)

PETROLEUM STUDY

(Gasoline and Oil Price Increases)

TUESDAY, JULY 7, 1953

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D. C.

The committee met at 10 a. m., pursuant to the taking of a recess, in room 1334, New House Office Building, Hon. Charles A. Wolverton (chairman) presiding.

The CHAIRMAN. The committee will come to order.

The first witness this morning will be Mr. Herbert Willetts, director and vice president in charge of domestic marketing, Socony-Vacuum Oil Co., Inc.

STATEMENT OF HERBERT WILLETTS, DIRECTOR AND VICE PRESIDENT IN CHARGE OF DOMESTIC MARKETING, SOCONY-VACUUM OIL CO., INC., NEW YORK, N. Y.

Mr. WILLETTS. Mr. Chairman, I have a prepared statement. With your permission I would like to read it.

The CHAIRMAN. You may proceed.

Mr. WILLETTS. My name is Herbert Willetts. I am a director and vice president in charge of domestic marketing for Socony-Vacuum Oil Co., Inc. Mr. Jennings, the president of our company, was unable to accept your invitation to attend these hearings. Your telegram indicated that you wanted us to discuss the gasoline price increase initiated by us in New York and New England on June 10. Because product pricing falls under my supervision, he asked me to appear in his place.

There is a very natural interest in all things, particularly price changes, relating to such essential and widely used products as are derived from petroleum. We welcome these opportunities given us from time to time by Government agencies to explain certain phases of our highly complicated industry.

The public never likes higher prices. The management of my company certainly wishes, along with everyone else, that the general cost of living would fall to a point where the dollar would purchase what it did not so long ago, without anyone suffering any loss of income. There are a great many astute people working on this problem, and I am sure we and all others in our industry are eager to cooperate. However, the forces which have affected our economy over the last few years must still be dealt with in the light of today's realities.

Socony-Vacuum market petroleum products principally along the eastern seaboard from Maine through the Carolinas, in the Midwest, and in a few Rocky Mountain States. Marketing operations are also conducted on the west coast by our affiliate, General Petroleum, and in the Southwest by our affiliate, Magnolia Petroleum Co. While the company has extensive crude production and refining interests, it is necessary for us in our domestic operations to buy over 47 percent of the crude and 17 percent of the products which we require in order to serve the demands of our customers here. The great bulk of the products which we buy is obtained from smaller refiners.

In our marketing operation, we sell very little to individual consumers. Most of our product sales are to small-business men, about 35,000 gasoline dealers and about 2,500 jobbers who sell gasoline, heating oil, or both. We operate only a handful of gasoline service stations which are used for training and experimental merchandising, and these are to enable us to provide better sales and operating advice and assistance to our jobbers and dealers. Thus only a fraction of 1 percent of retail sales of our gasoline are made by us directly to motorists. As for heating oil in the large eastern market, only 15 percent is sold by us directly to household consumers, the balance of 85 percent being sold by jobbers.

SOCONY-VACUUM'S PRICING POLICY

I believe it will be most helpful to this committee if I begin by outlining Socony-Vacuum's pricing policy. The prices I refer to are wholesale prices. Retail gasoline prices, I should point out, are established by the individual service station dealer.

True costing of individual products in our industry is impossible. Cost accountants universally agree that in any industry, such as ours, which produces numerous products from one raw material by continuous processes, accurate cost determination is an impossibility. Furthermore, any arbitrary or artificial cost basis, we have found, has no reality in the market place.

After long experience and many experiments we finally settled on the first element and the keystone of our price structure—the prices which refiners quote for large volume sales in the open market which is the predominant source of supply for the area to be served. Probably over half of the transactions which are reported in these markets involve small refiners. Since we are buyers of products from such refiners rather than sellers, we do not furnish refinery quotations of this nature. It is our opinion, therefore, that these open refinery markets most properly and accurately reflect economic conditions affecting refining operations generally.

Thus, the starting point in the computation of our price structure is the price which refinery sellers quote for their products in the open market in their area. Along the eastern seaboard we look primarily to the gulf coast market which is the principal source of supply for the area. In the central portion of the country the supply flow is highly complex, and we take into account open-market refinery quotations from both the gulf and the Southwest since substantial supplies are drawn from these areas.

To the primary value of products at the refinery gate, thus determined, we next add the transportation factor from the principal source

of supply to the terminal in the area to be supplied. In the case of the eastern seaboard, ocean transportation is involved; in the central part of the country our computation is in terms of truck, tank car, pipeline, and barge delivery.

Other factors which must also be added into our price structure are transportation from terminals to secondary storage points or bulk plants, marketing expenses including selling, local delivery cost, and so forth, and a reasonable return on our marketing investment.

On the basis of these structure figurations, we compute prices which we think appropriate in the various places where we do business. We believe these prices are fair, and that they are the prices we should receive for our products. Competition, however, in some cases prevents us from charging these prices, just as in other cases our prices undoubtedly keep our competitors below the amounts they would like to charge. There are always points where our selling prices are lower than what we term our objective prices, which are the prices we calculate we should get.

We think our method of computing objective prices is entirely sound. It meets the business facts of life. It is a tool which has been of great assistance to us in our efforts to do business in a highly competitive market.

RECENT HISTORY OF GASOLINE PRICE INCREASES IN NEW YORK AND OVER NEW ENGLAND

On February 26, 1953, in accordance with our long-established pricing policies, Socony-Vacuum advanced its wholesale tank wagon price of gasoline by varying amounts which averaged about 0.5 cent a gallon in its New York and New England marketing area. This increase was the first general increase in our wholesale gasoline prices in the northeastern part of the country since July 11, 1950. For most of this period of 2½ years price controls had been in effect. Despite price controls the cost-of-living index went up 10 percent from July 1950 to February 1953. The price of gasoline stayed generally level and if anything, went down a little. Although the gasoline market was basically strong there were spasmodic price wars in certain local areas. Such price wars, which often have no relation to the basic economics of the oil industry, are characteristic of the industry.

Early in 1953 we had conducted a comprehensive reexamination of our price structure. Our studies had revealed that while the cost of the crude oil purchased by our refineries had not changed since December of 1947, there were many other costs affecting our transporting and marketing operations which had risen substantially between July of 1950 and February of 1953. For example, the wage rates of our employees had increased by 18 percent during that period. A prominent building-cost index revealed that in 10 large eastern cities building costs had risen 10.7 percent. This, of course, affected us, particularly in the development, improvement, and replacement of our marketing facilities. Fabricated structural metal products had increased 11.1 percent and trucks, which are an important adjunct of our marketing operations, had risen 11.7 percent at the wholesale level, according to the Bureau of Labor Statistics. Socony-Vacuum marketing expense had gone up 10.2 percent.

In addition to these factors and others, the quality of Mobilgas had been improved between July 1950 and early 1953. The competitive trend in the industry had been—and still is—toward higher octane gasoline and improved quality generally. The difference between the open-market gulf-coast quotations on gasoline comparable to our old 1950 and new quality Mobilgas presently supplied by us amounts to 0.25 cent a gallon. At the time of our attempted price increase last February, this difference had not been reflected in our eastern-seaboard prices.

When we completed our studies the results showed that we were selling gasoline, on the average, slightly more than 1 cent below our objective prices. After some further deliberation, during which we consulted with our representatives in the field in order to gage the condition of the New York and New England markets, we finally reached the decision to increase our gasoline selling prices varying amounts, averaging about 0.5 cent a gallon, still leaving us short of our objective prices. We know that even such a modest increase would not hold unless our competitors also raised their prices. We assumed their cost-increase experiences were somewhat similar to ours, but recognized that their interpretation of the supply-and-demand outlook for gasoline, or their views on other factors in such a business decision, might be different from ours. As it turned out, some of our competitors did not increase their prices after we increased ours. Apparently our appraisal of the market was wrong. The position of our dealers had to be given first consideration. We did not feel that we could, as a matter of good business, continue to keep them in a position where they were at a competitive disadvantage with the dealers or suppliers who did not increase their prices. As a result, we were compelled to return to our original prices on March 5, 1953.

GASOLINE PRICE INCREASES OF JUNE 10, 1953

We again conducted a comprehensive examination of our prices in New York and New England toward the end of May of 1953. The situation as to marketing and distributing costs was still much as we had found it at the time of our previous examination in February. In addition, the gulf refinery market had advanced 0.25 cent since February, reflecting the improved quality of the gasoline being sold.

May I interrupt myself, Mr. Chairman, at this point, and ask for the record we substitute 25 cents in place of 25 points. We use that as a common expression. It is twenty-five one-hundredths of a cent, or a quarter of a cent, and for the record we would like to suggest that this be changed to a quarter of a cent.

The quality of our Mobilgas had kept pace. We also reexamined the supply-demand position for gasoline on the east coast. Estimates for the first 4 months of 1953 showed an increase in demand for this area of more than 4 percent over the like period a year earlier. Forecasts of the gasoline demand for the entire country indicated an increase of 5 to 6 percent in 1953 over 1952. Inventories toward the end of April 1953 at sources normally supplying the east coast were 1 percent below the same period in 1952. Comparisons made for periods after the end of April 1953 were disregarded because the May 1952 refinery strike abnormally depleted east- and gulf-coast stocks for

some period thereafter. For this reason we also made a comparison between 1953 and 1951 east coast-gulf coast gasoline supply and demand. We found that while the east-coast gasoline demand for the first 4 months of 1953 was an estimated 11 percent higher than the same period in 1951, the east coast-gulf coast gasoline stocks as of May 29, 1953, were only 5 percent above 1951 stocks on the same date.

As a result of these studies, and after consultation with our field managers, we increased, on June 10, 1953, our gasoline prices in New York and New England by varying amounts averaging between 0.6 cent and 0.7 cent per gallon. This increase still left us below our objective prices for the area.

PRODUCTS PRICE INCREASE DUE TO CRUDE ADVANCE

While you have asked us only to explain the price increase which we initiated, I should like to comment briefly on the price increase which occurred later in June after the advance in crude prices. The gasoline price increase initiated by Socony-Vacuum on June 10, 1953, had been intended only to reflect higher prices in the basic gulf market and other additional costs which we had encountered in our distributing and marketing operations. Failure to reflect these costs by modest increases in selling prices, it seemed to us, would in time inevitably eliminate some suppliers and as a consequence reduce competition, thus tending in the long run toward either much higher prices or shortages. You gentlemen may well ask yourselves whether we businessmen are sincerely concerned about such a prospect. Let me assure you that we are. Only by serving the public well can we or any other business hope to endure, and we feel that to fail to provide the products the public wants when and where it wants them, in peace or war, and at reasonable prices, is the unforgivable sin.

The increases in crude-oil prices, which began subsequently on June 15, 1953, were not initiated by Socony-Vacuum but were a natural consequence of the increasing cost of finding and producing crude oil. I am not going to attempt to analyze these costs or the crude-oil markets or to justify the crude price increases since that is out of the normal sphere of my responsibilities and activities with my company and since there undoubtedly will be other witnesses called by this committee more qualified than I to speak on this subject. The fact is, however, that crude oil is the basic raw material consumed by refiners and increases in the prices thereof have always been followed by increases in prices of petroleum produces as refiners try to recoup this important addition to their overall cost of operation.

As I have indicated previously, our east coast objective prices are responsive to competitive conditions as revealed by price quotations in the open refinery market at the gulf coast. It was not clear immediately how this market would reflect increased crude costs to the refiner in the prices quoted for the various finished products. A few refiners on the gulf coast changed their quoted prices immediately following the crude-oil advance. However, it was not until 7 or 8 days went by and the situation was clarified that we felt we were able adequately to appraise the price quotations in the gulf coast market.

Early in the week of June 22, we concluded that the product prices quoted by the largest number of refiners afforded a reasonable appraisal of the way the primary refinery market would reflect the

increase in crude cost. At that time it was apparent to us that the basic market had advanced 0.75 cent per gallon on gasoline, 0.625 cent on distillate and kerosene, and 25 cents per 42-gallon barrel on residual fuel oils.

Before reaching any decision as to what our own finished-product prices should be, we took into account one further consideration. This was to estimate the increase in realization to the refiner, on the basis of the gulf product price increases, and considering the average 1952 yields. This competition indicated that the refiner would recover just about the increase in the cost of crude oil.

Thereupon we decided on the basis of these changes in the quoted gulf prices to make changes in our finished-product prices on the east coast. Accordingly, on Wednesday, June 24, we advanced prices by the following amounts:

Gasoline	0.8 cent per gallon.
Kerosene	0.6 cent per gallon.
Distillate	0.6 cent per gallon.
Residual fuels	15 cents per 42-gallon barrel

Your attention is directed to the fact that due to seasonal and other competitive factors the price increases of the gulf market were not followed precisely on the east coast.

There are always some who will urge that suppliers such as Socony-Vacuum should absorb the burden of crude and other cost increases, and in the temporary interest hold prices down regardless of sound business principles. We have long followed a policy of trying to make each of our principal activities pay its own way. This is both sound business and good policy. Since we are large buyers of domestic crude oil and not sellers on balance, we are not in a favorable position to subsidize refining and marketing operation out of crude-oil-producing profits even if we were inclined to do so.

In conclusion I should like to point out that the long-term-product price record of the petroleum industry is outstanding. Competition has assured fair prices for products continually improved in quality. The industry is dynamic, and a free play of economic forces will continue to assure the public an ample supply of petroleum products at reasonable prices.

The CHAIRMAN. Mr. Willetts, I am in receipt of several telegrams which I will read into the record sooner or later. Basing my questions on those telegrams, I would like to inquire of you just who received the six-tenths or seven-tenths of a cent by which prices were increased on June 9. By this I mean of the higher prices which the consumer paid thereafter, how much went back to the dealer; how much back to the jobber, and how much to the refiner.

Mr. WILLETTS. We are now talking of the June 10 price increase?

The CHAIRMAN. That is right.

Mr. WILLETTS. Of about half a cent.

The CHAIRMAN. Yes.

Mr. WILLETTS. We are not talking of the price increase that followed the increased price of crude; we are talking of the June 10, sir.

The CHAIRMAN. That is it.

Mr. WILLETTS. On June 10 we increased our prices varying amounts, depending on areas, an average of about half a cent a gallon on just gasoline. That price increase applied to our sales product at the tank-wagon level to our sales of products at the jobber level; but the price

that would be reflected in the consumer price at the service-station level, that we do not know about. That price is established by the dealer and is not established by us.

We did raise the general level, all methods of delivery, under which we sell, which in my statement I have indicated our wholesale price.

The CHAIRMAN. When you say that you do not know of the price fixed by the dealer, as that is in his control, on what basis do those dealers operate? Are they in any way a part of your company?

Mr. WILLETTS. No; they are not. They are buyers of our product and sellers of our product in the retail market.

The CHAIRMAN. What, if any, influence or authority or jurisdiction do you exercise with respect to their fixing of prices?

Mr. WILLETTS. We do not use any. That is entirely up to the dealer to establish his own price at which he wants to sell the gasoline. After all, he has purchased this product from us. It is his. He can give it away. He can sell it at a high price or a low price, or at any price. That is his decision to make.

The CHAIRMAN. I have this telegram. I would like to have your comment upon it fully. It is sent to me as chairman of the House Interstate Commerce Committee. It is dated July 2. It reads as follows:

Most major companies made more net profit in spite of the excess-profits tax. Retailers of fuel-oil gasoline less profit. Socony-Vacuum made 7 percent net profit on gross sales in 1939, 10½ percent in 1951-53. Comparing business with these net profits in 1939 Socony-Vacuum gave 37.7 percent gross profit to retailers. Percent profit decreased consistently to 18 percent in 1939.

Now, with latest fuel-oil increases profit is 21½ percent. Socony-Vacuum made over $171 million net profit in 1952.

Some time ago I sent you charts of what the majors are doing to the little-business men, retailers, and the public. I am sending you extra charts by air-mail today showing percent of dealers' profits in the fuel-oil business. Dealer and retail companies should be figured in percent of profits, not in cents per gallon as the majors talk about. Gasoline dealers' profits are lower than fuel-oil dealers. Small-business men, truckers, workingmen, etc., cannot stand these increases. Considering profits of most major oil companies prices should go down instead of up. Majors raise price when there is a world oversupply of petroleum. Direct slap at President Eisenhower's administration. These increases are unnecessary.

I will not give the name of the sender of that telegram or the place from which it comes at this time. I do not know what might be the result if I did. I just will not take the chance.

I have another one dated July 3, which reads:

Read your 17 questions to be addressed to major oil refiners. Suggest you add an 18th question.

How can you explain the fact that tank-wagon price retail increased exactly the same as tank-car price dealers costs? Is this an attempt to squeeze the retail fuel-oil dealer? If your operation in both wholesale and retail wherein you dictate the price of both a violation of the Sherman Antitrust Act why were so many supply depots closed when the price advance was announced? Is this further attempt to squeeze the dealer?

Hope you can clean up this mess and give us relief.

That is signed by an individual.

I have another one:

When you question major oil company men hope you can learn why they raised tank-wagon delivery price on gasoline only three-tenths of a cent at——— and northeast Arkansas points, when our refinery costs increased 1 cent. Small independent jobbers such as us cannot exist on remaining margin. Is it therefore the purpose to kill off independent competition?

That telegram was likewise sent on July 3.

Mr. HARRIS. That was written from Arkansas, Mr. Chairman?

The CHAIRMAN. That wire was not from Arkansas, but from a point not too far away.

Mr. HARRIS. I know that town is in Arkansas.

The CHAIRMAN. I know. The writer of the telegram indicated that to me. Otherwise I would not have known it.

What comment, if any, do you have to make on that?

Mr. WILLETTS. Well, you have read a great many things to me, Mr. Chairman.

The CHAIRMAN. Would it help if I reread it?

Mr. WILLETTS. It would just confuse me. It would be like water on a tin roof, I think, running all together.

The CHAIRMAN. Well, that would be a very pleasant sound just now.

Mr. WILLETTS. I would like to make these comments, Mr. Chairman: One statement said we are embarrassing the President of the United States. We hope not. We never want to and I do not think we ever shall or did.

Another statement said that we were trying to put the small-business man out of business, and I would ask you to consider just this fact: We in Socony-Vacuum do practically all of our business through the small-business men, as my statement has indicated. It would be the height of foolishness on our part to try to put him out of business, because he is the man who puts our product into the market. We sell a very high percentage of our total sales in this country to jobbers and we sell practically all of our retail gasoline, or resale gasoline, do our resale gasoline business through dealers. We are not interested in putting those men out of business.

I would like to make this further comment. We do nothing about the resale price of gasoline at the service-station level. That is the dealers' job to do.

At the jobber level, at the time we were initiating these price increases, we did one more thing. We started a study of the prices at which we were selling our jobbers and attempted to place ourselves in his position. He has had cost increases and so have we.

Now, the combination of our price increase was made up of improvement in the quality of gasoline and, as I testified in my statement, some increase in the cost of doing business. Thinking in terms of that factor, we did alter—in other words, we altered the price we sell our jobber; but we did not shove it up quite as much, raise it quite as much, as the six-tenths that we are talking about. In other words, we gave him this price, that if he sold in his area at the prevailing levels, he would have increased his margin. We have nothing to do with his margin. We know one factor of that. We know the price at which we sell him. We are not sure of the price at which he sells all his material. So we just don't know his margin. But we did, when we raised our price, raised it a lesser amount than this general increase in the tank-wagon level. That would, if he sold it at the prices in his area—whatever they may have been—have the effect of giving an increase in margin.

The statements have indicated something about the profits of my company, and I would like to give you some figures, with your permis-

sion, about the profits of my company. We do not think that they are exorbitant, or unfair or high.

I have here some sheets. These are some figures that I brought with me, and they go back 10 years, to 1943.

The CHAIRMAN. I would be pleased, in that connection, if you would give us the same information that was given yesterday by the representative of the Phillips.

Mr. WILLETTS. Mr. Chairman, I do not think I can, because he used different figures. I am using net profits in each instance.

The CHAIRMAN. You do not have the gross?

Mr. WILLETTS. No; I do not have the gross.

The CHAIRMAN. Give us what you do have, and maybe you could fill in the balance afterward, for the purpose of the record.

Mr. WILLETTS. We will be glad to do that. But I am sorry I do not have the gross with me.

The CHAIRMAN. His statement also included the increase in assets during the 10-year period.

Mr. WILLETTS. I have in this statement the increase in the net worth from 1943 to 1952.

The CHAIRMAN. Do you interpret that to mean the same as expressed yesterday as assets?

Mr. WILLETTS. I believe they at the time were talking about net worth, as of the time they were using assets. I am taking just the net worth, when we use these, in computing it on a percentage basis, the amount of money we have made in a given period as profits.

The CHAIRMAN. It may be that some members of the committee are very familiar with the difference between assets and net worth. I must confess that I am not an accountant, or not accountant enough to draw the line of distinction.

Mr. WILLETTS. Well, I do not pose as an accountant, Mr. Chairman. I think the usual custom is to relate your earnings to your net worth.

With your permission, I would like to read these figures, and I will start with the year 1943.

In 1943 Socony-Vacuum made a net profit of $35,900,000. That net profit was 4.7 percent on our net worth.

I have got another sheet which shows the net worth, but I cannot find it; but I will.

Our net worth at that time, in 1943, was $765,500,000.

In 1944 the profit of Socony-Vacuum was $62,400,000.

The net worth of the company at the end of that year was $798,600,000, and we made as a profit that year 7.8 percent.

In 1945 Socony-Vacuum's profit was $42,300,000.

The net worth of the company at that time had risen to $830,900,000, and we earned on our investment 5.1 percent.

In 1946 Socony-Vacuum's net profit was $58,300,000.

Our net worth at the end of that year had risen to $866,100,000.

And we earned as a percentage on investment in that year 6.7 percent.

In 1947 our net profit amounted to $97,700,000. Our net worth had increased to $925,800,000, and in that year we earned as a percentage on that net worth 10.6 percent.

In 1948 Socony-Vacuum's net profit was $132,800,000. By that time, at the end of that year, our net worth had increased to $1,015

million, and in that year we earned as a percentage on our investment 13.1 percent.

In 1949 we earned $98,300,000, and at the end of that year our net worth had risen to $1,101,700,000, and we earned as a percentage on our investment in that year 8.9 percent.

In 1950, Socony-Vacuum's net profit was $128,200,000, and our net worth had risen at the end of that year to $1,180,100,000, and we earned as a percentage on our investment during that year 10.9 percent.

In 1951, we earned $161,600,000, and at the end of 1951 our net worth had risen to $1,286,700,000, and we earned a percentage on that net worth, during that year, of 12.6 percent.

In 1952, we earned $171,100,000. Our net worth had at the end of that year risen to $1,452,100,000, and we earned as a percentage on that investment 11.8 percent.

We do not think that the earnings expressed as a percentage on our investment are high, nor do the stockholders of our company, with whom we have just met, in the last part of April.

The CHAIRMAN. I am sorry to ask you to repeat, but my attention was taken up during the time you first commenced to give your figures. What was the first year you gave?

Mr. WILLETTS. 1943, sir.

The CHAIRMAN. What was your net worth?

Mr. WILLETTS. Our net worth in 1943 was $763,500,000.

The CHAIRMAN. And what was it in 1952?

Mr. WILLETTS. In 1952?

The CHAIRMAN. Yes.

Mr. WILLETTS. In 1952 it was $1,452,100,000.

The CHAIRMAN. How much increase is that, on a percentage basis? You are getting into pretty big figures for a Congressman.

Mr. WILLETTS. I have not figured it out, but a little less than 100 percent.

The CHAIRMAN. Now, what did this correspondent, who sent that telegram, have in mind, what comments do you feel it may require to explain? He says that in 1939 Socony-Vacuum granted a 37.7-percent gross profit to retailers and that the percent of profit decreased consistently to 18 percent in 1948. Now, with the latest fuel-oil increase, the profit is 21½ percent. What is your relationship of that?

Mr. YOUNGER. Mr. Chairman, may I interject just one question to find out whether the figures he used included their foreign operations.

Mr. WILLETTS. These figures that I have footed are Western Hemisphere figures.

Mr. YOUNGER. And do not include your foreign operations?

Mr. WILLETTS. Well, when you say "foreign operations," I think we must say, I am not talking about those companies in Europe that are set up separately. These are our Western Hemisphere companies and they do include Socony-Vacuum Venezuela and our operations in Colombia.

Mr. YOUNGER. If you included all foreign companies, would your figure be materially different?

Mr. WILLETTS. I am corrected in that statement. I am corrected. They do include the investment in foreign companies.

Mr. YOUNGER. Do include?

Mr. WILLETTS. I would like to change the record to that extent.

Mr. YOUNGER. I just wanted to get that for the record.

The CHAIRMAN. Do you have in mind the question I asked? If not, Mr. Reporter, will you repeat it?

Mr. WILLETTS. If I recall the question correctly, you asked me to comment, I believe, on margins granted by us in terms of percentages, and I do not know that I can, because when you go back to 1939 I do not remember conditions at that time, and I am not even sure we gave anybody a margin.

We sell our goods at a price. We sell to a jobber at a price. That jobber marks up his goods and sells it at another price. His margin is something that he creates. We only sell at the wholesale price and we just do not know exactly the price at which he sells, his price. So, I do not think I can comment on the giving of margins on the part of my company.

The CHAIRMAN. So you do not know whether that statement that he has made in the telegram is correct or not, that in 1939 Socony-Vacuum gave 37.7 percent gross profit to dealers and that the percentage of profit consistently declined to 18 percent in 1948 and now related to fuel oils, they have increased the profit to 21½ percent.

Mr. WILLETTS. I cannot. As I have explained to you, Mr. Chairman, a margin is the difference between a buying price and a selling price. We sell at a price to a jobber. He in turn sells at a tank-wagon price or some other price to his customers. The difference between the price we sell him at and the price he sells his goods at becomes his margin; but we only have truly within our knowledge the price at which we sell to the jobber.

It could be that at some time the prices at which we sold to the jobbers were such that when he sold the goods in his market he had a 39-percent difference or he had a 22-percent, or an 18; but I cannot testify to it. I know the basis on which we sell our goods and I do not know the basis, entirely, upon which the jobber prices his goods.

Mr. HARRIS. Mr. Chairman.

The CHAIRMAN. Mr. Harris.

Mr. HARRIS. Mr. Willetts, does your company have nothing whatsoever to do with the jobber's price?

Mr. WILLETTS. When you say the jobber's price, Mr. Harris, you mean the price at which he sells these goods?

Mr. HARRIS. Yes. I mean, do you have affiliates with your company who are jobbers?

Mr. WILLETTS. No; we have one company in which we have a financial interest in the center of Pennsylvania that I suppose would act about as a jobber, or does.

Mr. HARRIS. Does your company have retail stations?

Mr. WILLETTS. Yes; we have a very limited number. I would say right at the end of 1952 that it would be not more than 60 and I think it is nearer to 50. As I indicated in my statement here, we keep those statements for experimental purposes; for the purpose of developing techniques of selling; for the purpose of studying the type of equipment which we think best suited to the needs of service-station operators. So, we keep them for that purpose and you will find attached to most of them, you will find a room or two rooms that are used for classrooms, and we bring in our own salesmen; we bring in the dealers; we bring in the dealers' helpers; the jobbers and the jobbers' helpers, and we use most of those stations to teach them

something, if we can, or have them teach us something, which they can quite often, about the doing of retail business.

Mr. HARRIS. As a general policy you have no jobber operations or retail operations.

Mr. WILLETTS. That is a true statement.

Mr. HARRIS. Consequently your company does not in any way control or have anything to do with the establishing of jobbers' prices.

Mr. WILLETTS. That is correct.

Mr. HARRIS. Or retail prices.

Mr. WILLETTS. That is correct.

Mr. BENNETT. Mr. Chairman.

The CHAIRMAN. Mr. Bennett.

Mr. BENNETT. As a practical matter, Mr. Willetts, does not the oil company have control of the prices that are charged at the retail level for gasoline?

Mr. WILLETTS. No, sir, Mr. Bennett. As a practical matter they do not.

Mr. BENNETT. Well, suppose that the gas station owner is selling gasoline at 25 cents a gallon, retail; selling your gasoline, and suppose further that he is making a 2-cents-per-gallon profit on that.

Now, you raise the price to him half a cent, or let us say a cent, to make it simpler.

Do you mean to say that raise in price by you has nothing to do with the price that he must charge to the consumer?

Mr. WILLETTS. I mean to say, Mr. Bennett, that—let us take your example—he is selling gasoline for 25 cents. He is making a 2-cent margin. That would indicate that we are selling it to him at 23 cents. I do not know of many of those cases, to be perfectly frank with you. But let's take that example. We raise the price to 24 cents. That means that our selling price, on the basis of your example, would be up a cent, or would be 24 cents.

Now, he can decide to sell that gasoline at 25 cents if he wants to; he can decide to sell it at 30 cents, if he wants to; he can decide to sell it at 10 cents if he wants to, or if he has got a mother-in-law that he likes very well, he can give it to her.

Mr. BENNETT. Certainly; I realize that; but I am sure you also realize that unless there is something wrong with a man's head he would not stay in business very long if he is—that is, taking into account that he is an employer of labor also—he would not stay in business very long if he did not raise the price, his price, by the same margin that you raise your price. Is that not true?

Mr. WILLETTS. Or he may raise it more; but it is his action, not ours.

And, if I were in business, as a dealer, and I had an increased price to me on gasoline, I would think in terms of recovering it in my selling price; but the point that I am trying to make is that the decision is his.

Mr. BENNETT. Do you claim that you have no control over it and the price that you are charging in no manner whatsoever controls the price at the retail level?

Mr. WILLETTS. We do not control the price at the retail level except at the 50 or 60 service stations I testified to that we operate on a direct basis, and we establish the retail price at those 50 or 60 stations. That is the only thing I am talking about.

Mr. BENNETT. Technically you are right. Technically you do not fix the price. He is free to charge what he pleases, but under a practical situation if a man is selling gasoline for 25 cents a gallon and he is buying it from you at 23 cents a gallon, and you raise the price 5 cents a gallon, that raises his cost of gasoline to 28 cents per gallon.

Now, do you maintain that as to that man, that you have no control over what he must sell that gasoline for, if he is to stay in business under those circumstances?

Mr. WILLETTS. We maintain no control over the price at which he shall sell that gasoline. He has bought it from us and he puts his own pricetag on it and sells it.

Mr. BENNETT. You do not care if he sells it at 20 cents a gallon and goes out of business in about 3 months?

Mr. WILLETTS. I do not think that my remarks should be interpreted that way. I have testified here that we do business, practically all of our business, through independent businessmen, jobbers, and men who operate service stations, and we have a keen interest in those men staying in business. It would be against our own very best interests to do things to them that would put them out of business.

Mr. BENNETT. Let me ask you this question. When you raise the price, let us say, 5 cents a gallon, the retail station has got to raise the price or go out of business, has he not?

Mr. WILLETTS. I would think that that dealer, doing business as a good businessman, if we raised the price 5 cents—and I do not like the 5-cent price—if we raised the price 5 cents, I believe, Mr. Bennett, that he would raise the price.

Mr. BENNETT. Or he would go out of business?

Mr. WILLETTS. I think he would.

Mr. BENNETT. All right. And it is to your interest to keep him in business, because if he is not in business, you could not sell gasoline.

Mr. WILLETTS. That is correct; we do not——

Mr. BENNETT. So, if due to the force of circumstances you raise the price to the retailer, he must necessarily pass it on, if he is to stay in business?

Mr. WILLETTS. I think he would pass it on if he wanted to stay in business.

we build storage tanks, and so on. Eventually increased costs have got to go into price.

Mr. BENNETT. Let me quote from your statement. You say when you raised the price of gasoline in March 1953 nobody else raised theirs.

Mr. WILLETTS. In February?

Mr. BENNETT. Well, your statement says March. Your statement says:

Mr. BENNETT. Consequently to that effect, you do affect the price, whether it is by direct dictation to the retail gasoline dealer, or whether it is by the force of circumstances. What you charge the retail dealer has an effect on the price that he must charge, at least, to stay in business.

Mr. WILLETTS. No; I do not quite agree with that statement at all. On that basis, the price at which we sell, or what we charge, is controlled by the price of steel out of which we make boats; out of which

We were compelled to return to our original prices on March 5, 1953.

Mr. WILLETTS. We dropped our prices back on March 5; yes, sir.

Mr. BENNETT. Now, you raised the price in February and you lowered it again in March.

Now, on page 6 of your statement it reads:

> We did not feel that we could, as a matter of good business, continue to keep them in a position where they were at a competitive disadvantage with the dealers—

that is your dealers—

> in a position where they were at a competitive disadvantage with the dealers of suppliers who did not increase their prices.

Mr. WILLETTS. Yes, sir.

Mr. BENNETT. Now, what do you mean by that statement, if you do not mean that the price, your price increase was not immediately reflected in price increases by your own dealers?

Mr. WILLETTS. I will go back to my statement, Mr. Bennett.

Mr. BENNETT. Let us stick to that statement.

Mr. WILLETTS. That is what I am going to do.

Mr. BENNETT. This is in your statement.

Mr. WILLETTS. We said in this statement—and I have put it in the record—that after our price increase in February was not met by competition, we rescinded it on March 5, and the reason we rescinded it was we did not want to put our dealers and our jobbers in a competitive situation of that kind.

Mr. BENNETT. Certainly.

Mr. WILLETTS. By holding our prices up. So we dropped them.

Mr. BENNETT. The reason they were put in a disadvantageous position competitively is, because of the result of your increase to them, they were compelled to increase the prices at the retail level. Is that not a fact?

Mr. WILLETTS. I do not accept it as a fact, Mr. Bennett. I do not like to argue about it, but you use the word "compelled," to which I object. I do not think they were compelled. I think as good businessmen they would do it.

Mr. BENNETT. Certainly.

Mr. WILLETTS. But as a practical matter——

Mr. BENNETT. That is what I have been talking about, as a practical matter, when you increase your price the fellow down below is bound to increase his price.

Mr. WILLETTS. I think if the competitive situation is such that he can increase his price, he normally would do so. In fact, we have found, in an examination of the retail market, that on this increase in price that we initiated in February, about which we are talking, that many dealers increased their prices more than the amount we had raised the price to the dealer, and I have just been on a trip through New England and talked with a couple of dealers while there, and those dealers told me not only had they raised their prices but when we reduced our prices they had not reduced theirs. I do not say that is incorrect, because I think dealers have had increases in costs, their costs of doing business, other than the cost of the gasoline.

Mr. BENNETT. What you have been trying to say is that you just raise the price of gasoline and then let nature take its course, and therefore you do not have any control over it, or have any voice, or any effect upon it?

Mr. WILLETTS. What I am saying is that we do not have control over those prices, Mr. Bennett, and that is true.

Mr. BENNETT. Now, as a gasoline-station owner, I think that you will agree with this: When you do increase the price to him he has 1 of 2 alternatives. He can either absorb that increase on his own, pay for it himself, in other words, or he can pass it on by increasing the retail price, and he has no other alternative, has he?

Mr. WILLETTS. Well, my answer to that is that as a good businessman I believe he would increase his price by at least the amount that we had increased our price to him.

Mr. BENNETT. I have just one other question, and this relates to the question of profits. According to your financial statement from 1950 to 1953, the earnings per share to your stockholders increased substantially; is that true?

Mr. WILLETTS. I didn't get that, Mr. Bennett.

Mr. BENNETT. Earnings per share of your firm, according to your statement. It was $4.03 per share in 1950 and it is $5.08 in 1951 and $5.27 per share in 1952.

Mr. WILLETTS. If that is what the statement says, I believe that is what I would say. I haven't the statement right in front of me.

Mr. BENNETT. There was no price increase in your products from 1950 until June of 1953; is that true?

Mr. WILLETTS. Until February, and then June; yes. That is since July of 1950; that is correct.

Mr. BENNETT. So that in spite of the fact that you did not increase prices, and in spite of the fact that other people in the industry claim that costs of production and refining increased substantially over this 3-year period, you show a substantial increase in earnings per share over that period.

Mr. WILLETTS. That is correct.

Mr. BENNETT. That means that you were able to absorb, or able to get along with no price increase; that you were able to absorb increased costs of production and refining, and at the same time increase your profits per share over that 3-year period?

Mr. WILLETTS. That only means one thing. I have testified here to the fact that the net worth of my company has been going up substantially year after year because of the amount of money we are putting into this business. It means that during these years between 1950 and the current time, 1953, we did absorb some increase in expense. I think we should keep in mind that during those years the amount of business being done, the consumption had increased, but our earnings per unit were decreasing.

Mr. BENNETT. Your earnings per share increased?

Mr. WILLETTS. I am talking about the earnings per unit of sale. I think we should also keep in mind that the earnings expressed as a percentage on the net worth of our business were relatively low. In fact, I would like to just quote a few figures if you will permit me.

As I have testified, in 1952, we made as a percentage on our business, 11.8 percent. All manufacturing made 12.3 percent. Automobiles and trucks in 1952, according to the figures I have made a percentage on their investment, 18½ percent, and chemical products made 13.7 percent. Nonferrous metals made 11.5 percent, and tire and rubber products, 13.4 percent, I think.

Mr. BENNETT. In all of those instances, the manufacturers of those products have increased their prices over the past 3 years; isn't that right?

Mr. WILLETTS. I think most of them have, but I can't testify.

Mr. BENNETT. Most of them have increased, and increased substantially, during that period. Yet the percentage margin of profit between those industries and your industry is very small, in view of the fact that you have had no price increase and have been compelled to absorb all of these extra costs.

Mr. WILLETTS. Well, the difference between 11.8 percent on Socony-Vacuum, and 18.4 on autos and trucks isn't very small, and if you expressed it in our net worth our earnings would change perceptively.

I would like to point out one more thing, that these earnings are really not true earnings. In other words, during the period of time we are talking about, we have had considerable inflation in this country. We should, even if we had done nothing, earn more money because the dollars are worth less. We found that during this period, and even during last year, when our earnings had gone up to $171 million, that we were running out of money, cash I am talking about.

The earnings are overstated, they are book earnings. We are earning money now during an integrated period on much of the investment that we made years ago.

Just take a truck. We are allowed to depreciate a truck and for the purpose of this example let us say that the truck is worth on our books—we paid for it at that time—$5,000. Now, we have had the truck for a great many years, but we have worn it out, and we have charged off our expense a sum total of depreciation over the years equivalent only to the $5,000; but now we have to replace it and we buy it for $10,000. We have only set aside enough money to pay for a $5,000 truck, but we can't buy one. So they have got to dig into earnings to put up the extra $5,000 to get the truck back that we definitely need to do our business.

Now, you can cite a great many other cases in our business where that has happened. The earnings of people, expressed in terms of 1940 dollars, are up. In fact, I don't know of anything that hasn't gone up some, and some things more than others, in this relatively long period of time.

Mr. BENNETT. The surprising thing to me and I think it must be to a lot of people is how your industry, standing by itself, standing all alone, of all of the big industries of this country, can absorb up to 50 percent in increased costs over this last 5-year period, and not increase your own costs at all, but increase your profits each year.

Now, to an average person who does not know the intricacies of the oil business, there is only one thing that is perfectly clear, and that is that there must be a substantial cushion that you people are operating under that other industries do not have. Otherwise, you could not absorb these tremendous cost increases without increasing the price of your product and still come out with a bigger profit.

Mr. WILLETTS. Now, I have made no statement in this period of years, Mr. Bennett, about an increase of 50 percent. That is not my statement. You recognize that.

Mr. BENNETT. That is a statement that has been made.

Mr. WILLETTS. I still go back to one thing. With all of these earnings, when we came to the end of last year, and in fact during the

middle of the year, it was becoming apparent to us in our company that we were running low on that vital thing we need to carry on our business—cash. We decided to try to figure out what we should do about it. We could do one of several things.

We could go and sell bonds or we could sell more stock; we could borrow from some lending institution such as a bank or an insurance company, but after a great deal of study and consideration my company decided that it would sell additional stock in an amount equal to 10 percent of the stock then issued.

After the sale of that stock was concluded, and what charges we had to pay, underwriting charges and all, were over, we had in the till of our company something over $95 million in cash.

Now, we needed that cash because we have figured that during this year, according to our plans, according to the needs of the business, to get us ready for the future. We are going to spend this year, I think the record expenditures in the company's history. The oil that we find today, and we hope we find some, we will probably sell in 1960 or thereafter.

We are putting money into refining facilities, and we are improving our refining operations. We are not so much expanding our refinery operations as we are improving by adding the type of equipment that will give our refiners the ability to make improved types of products and particularly gasoline.

As Mr. Petersen mentioned here yesterday, our General Petroleum Corp. is now about to start; the engineering work has all been completed; the construction of a refinery in Ferndale, in the State of Washington, away up in the Northwest corner. We anticipate taking crude off the transmountain pipeline. Some of it will be Canadian crude, and we do that at this mine. We are on the ocean and we could take crude in from several places. These decisions you make as you go along.

But we are spending our money not only to have enough product available for the consumer when he wants it and where he wants it, but of the kind he wants. We have got to plan well in advance to do that. These earnings are definitely inflated earnings that we are talking about.

Mr. BENNETT. That is all that I have.

The CHAIRMAN. As I understand your statement, and as I know the facts to be, you had an increase earlier in the year from which you retreated in March of this year, and then on June 9 you had another increase.

Mr. WILLETTS. Yes, sir.

The CHAIRMAN. What was the condition in June that would bring you to conclude that you could be successful with that increase when only a few months before you had been unsuccessful in an attempt to have an increase?

Mr. WILLETTS. I think, Mr. Chairman, that as indicated in our February move that did not hold, that our desire had not changed one iota to recoup for the company some of its increase in expense and cost of product. We hadn't changed our thinking that one bit.

The CHAIRMAN. In other words, the same reasons that prompted you to indicate the necessity for an increase in the early part of this year were the same reasons that applied in June?

Mr. WILLETTS. The same reasons plus one, and that plus one was that gasoline in the gulf had gone up an additional quarter of a cent a gallon over what it was at the time that we initiated our increase in February. But the other conditions were the same. We didn't know in June that the price would stick, but we hoped it would. It did.

The CHAIRMAN. Just before the June 9 increase, had not your company taken the position that the inventories were very high?

Mr. WILLETTS. Mr. Chairman, if they did, I have no knowledge of it.

The CHAIRMAN. Well, I will read to you what your president, Mr. Jennings, president of your company, said before the House Ways and Means Committee, on May 13:

> The present problem is in many ways similar to, though on a much smaller scale than, in 1949 and 1950. It had been necessary at one point in 1949 to cut back domestic production as much as 1 million barrels a day in contrast with today's cutback of 330,000 barrels. Then, as now, unduly high production, unusually warm weather, and other domestic factors had led to the accumulation of relatively high inventories.
>
> The cutbacks reduced inventories to more normal levels. In my opinion, the same corrective factors are already at work today, only this time the adjustments should be easier to accomplish because the correction called for is considerably less.
>
> Assuming that inventories are at an economic level by autumn, it is expected that domestic crude-oil production by the fourth quarter of 1953, will reach the highest point ever.

Now, Mr. Willetts, do you infer from that statement of Mr. Jennings on May 13, that inventories were rather high, and the work of corrective factors would be such that they might come down to an economic level by fall?

Mr. WILLETTS. I agree with Mr. Jennings' statement. He used the term "relatively high," though.

The CHAIRMAN. How could you explain the correction on June 9 in the face of that statement?

Mr. WILLETTS. Let me explain it this way, because these are the figures with which we worked at the time we made up our price increase.

On June 9, or just shortly before, as I indicated, we did this figuration in May to get ourselves ready because we have a lot of work to do. We took a look at the stock situation in the east coast and the gulf coast areas. Now, those are the two areas which in our judgment affect the supply on the east coast, as we mentioned. Most of the material moves up by tanker into the northeast section.

In using the quotations issued by the API on April 24, we found that on a similar day in 1952 there was gasoline stocked to the extent of 32,563,000 barrels, and in the gulf coast area, 31,400,000 barrels, a total of 63,963,000 barrels. That is in 1952.

In 1953, on that date, the east coast area showed stocks of 34,888,000 barrels, and the gulf coast stocks were 28,579,000 barrels, or a total of 63,467,000 barrels. We also showed because we run in our economic section of our company, our economists, forecasts for us. They don't just tell us what the stocks were for the previous year or this year, but they forecast for us what we term "economic" or desired stocks.

On that day they indicated that as of June 30, they thought gasoline stocks should be about 60,100,000 barrels. But keep in mind that in the gasoline business we build gasoline stock in the winter and reduce it in the summer through use. That indicated to us, with an increase in demand which I put in my written statement amounting

to some 4-plus percent in the area, that the supply-and-demand situation was such that we thought it appropriate to try and recover some of the increase in costs that had occurred to us since the last price increase in July of 1950. Therefore, we made that move.

The CHAIRMAN. Did you increase the gasoline prices only because of a feeling that a demand for gasoline was up and would sustain the increase?

Mr. WILLETTS. No; increased our prices, Mr. Chairman, because we had incurred increases in expenses and we thought that normal businessmen, having incurred those expenses, could and should increase prices under the conditions I have mentioned.

The CHAIRMAN. Well, you did not have in mind, then, what your president said about corrective factors that would bring down the inventories by the fall, and that that would have a tendency to keep up your price?

Mr. WILLETTS. No; I would not say that we took that into consideration.

The CHAIRMAN. You say you did not take that into consideration?

Mr. WILLETTS. I wouldn't say we took that specifically into consideration. I would like to point out that Mr. Jennings' statement is talking about the total of the United States. I am talking about the east coast of the United States, the northeast coast; New York and New England.

The CHAIRMAN. Well, that may or may not make a difference. I do not know. The fact is that he was speaking in terms that I think could be readily understood, and I do not think that they necessarily are to be confined or expanded in the way that you have just indicated. He was speaking of general conditions, that is true, and now I am asking you whether if your president had those views in his mind on May 13, you have them in your mind on June 9 when the price was increased?

Mr. WILLETTS. I am saying, Mr. Chairman, that on June 9, or shortly before that, when we figured out the increase in price in the northeast section, that we took in the supply, the demand, and the supply-and-demand situation, and we thought it was such that we could recover our costs.

Mr. Jennings is pointing out that stocks, total stocks of all products, in the United States, are relatively high, and it would appear that they are a little bit high, but not much. That is in the total United States. We didn't think that the stocks in terms of the east coast area were awfully high; we thought they were fairly well in balance. We are talking about gasoline now.

The CHAIRMAN. So as to your price increase on June 9 you would have us believe that you did not take into consideration the situation that had been outlined by the president of your company on May 13 when he testified before the Ways and Means Committee?

Mr. WILLETTS. No; I think we did take in the general thinking of our president as he testified before the Ways and Means Committee, but I am trying to point out, sir, that we had to take apart the total figure to get to that portion that applies to the Northeast section where we had increased our prices. Those are the figures.

The CHAIRMAN. If the conditions, such as your president spoke of in May of 1953, are a true description of the conditions that existed, would you not be justified in feeling that the gasoline increase that

you made on June 9 would be more likely to stick than it had earlier in the year?

Mr. WILLETTS. I don't remember the total stock situation in the United States earlier in the year, but I would say that the stock situation, as far as that which affected the Northeast section, was a little bit better. We were coming into the period of demand and there was likelihood that it would stick.

Mr. HESELTON. You continually refer to the Northeast. Did the company increase gasoline prices anywhere else in the United States?

Mr. WILLETTS. Yes; we have increased prices since in a goodly portion of the United States; after the crude rise they had been increased, as Mr. Peterson testified about his company. We had some increases the same as his company did on the west coast and not the same prices necessarily; but around that time we had increased our prices in the Western States and the west coast of California, Washington, Oregon, and so on.

Mr. HESELTON. As to the other increases, after the crude price increase, did you increase in other areas to the same degree you did in the Northeast?

Mr. WILLETTS. After the crude price increase, you mean?

Mr. HESELTON. Yes.

Mr. WILLETTS. In other areas we did; yes. We increased eight-tenths, six-tenths, and 15 cents a barrel on residual oils.

Mr. ROGERS. Mr. Willetts, I wonder if you took into consideration the interest of the stockholders when you increased the gasoline prices?

Mr. WILLETTS. Yes, we did.

Mr. ROGERS. How many stockholders do you have in the company?

Mr. WILLETTS. About 175,000; that is an approximate figure, but I think it is about correct.

Mr. ROGERS. What percentage of dividends do you pay those stockholders?

Mr. WILLETTS. Well, we have been paying in the last couple of years, $2 a share, and we earned a little over $5 in 1953, and we paid out $2 a share and the balance of it was retained and reinvested in our business.

Mr. ROGERS. I have just one other question, Mr. Chairman.

Now, have you found out or have you come to the conclusion that the increase in the price of gasoline has affected the volume of sales your company makes?

Mr. WILLETTS. Well, I can't testify to that because we only made these price increases in June on the 10th and 25th, and I have seen no sales sheets since.

Mr. ROGERS. You have no statistics on that?

Mr. WILLETTS. I haven't right at the minute because we will soon have June sales ready, but I hadn't seen it at the time I left for Washington.

Mr. ROGERS. Thank you, Mr. Chairman.

The CHAIRMAN. Your pilot plants have not reported yet; is that right?

Mr. WILLETTS. Well, we accumulate these figures and it is quite a chore, Mr. Chairman. We will have the reports, I presume, about the time I get back.

The CHAIRMAN. Are they not able to advise you within a month?

Mr. WILLETTS. The month has just closed. The month of June that we are talking about has just closed.

The CHAIRMAN. We are in July now.

Mr. WILLETTS. We have had a Fourth of July, and we gave last Friday off to our employees and so they didn't work.

The CHAIRMAN. You would have some indication long before this, it seems to me, whether it was normal figures or otherwise, as to what effect it was having, and I just cannot conceive of a corporation of your size and intensity that would not know short of this from its pilot plants as you have described, what was happening as a result of the price.

Mr. WILLETTS. Well, Mr. Chairman, we generally get our sales figures for the previous month about the 7th of the next month.

The CHAIRMAN. I see.

Mr. WILLETTS. We do have in the eastern area an indication in the middle of the month how sales are going.

The CHAIRMAN. I thought maybe there might be something like that.

Mr. WILLETTS. But it wouldn't be a total month.

The CHAIRMAN. What is that?

Mr. WILLETTS. That wasn't a total month, and the first price increase had just taken effect.

The CHAIRMAN. Now, did your company subsequently follow the Jersey Standard's lead after the crude price increase and raise the price not only of gasoline, but of heating-oil products as well?

Mr. WILLETTS. My company, as I mentioned in our statement, Mr. Chairman, after studying the situation, did advance the price of gasoline along the eastern seaboard, eight-tenths of a cent a gallon and we increased the price of kerosene and heating oil six-tenths of a cent a gallon and we advanced the price of residual type oils, 15 cents per 42-gallon barrel.

The CHAIRMAN. Why do you do it after rather than before Standard of New Jersey?

Mr. WILLETTS. Why did we do it after?

The CHAIRMAN. Yes.

Mr. WILLETTS. I mentioned in my statement the process that we followed in determining what we should do.

The CHAIRMAN. If the reasons that you have given led you to make the increase what they are, they applied just as well, I would assume, before Standard made its increase, as well as after.

Now, then, what occasioned you to do it afterward rather than before? You had the same reasons to do it.

Mr. WILLETTS. As I mentioned, Mr. Chairman, the base of our price structure in the eastern section is what happens to the price, and that price is reflected by the local refiners in the gulf. We were waiting to see what prices they were going to reflect for the various products as a result of the crude increase. After we had waited a time and could ascertain what we thought the increase in finished product prices at the gulf, the quotations, were, we then reflected them in our selling prices along the eastern seaboard.

Now, I want to point out that we, as a company, are buyers of crude on balance. We buy 47 percent of our crude. That is in our statement. We buy 17 percent of our finished products. The prices of the crude had gone up, that that we buy and the price of products had gone up and in fact we have one contract to purchase from an independent gulf refiner distillate heating oils we move into the Northeast section.

That contract in terms of amount is equal to approximately 10 percent of the total sales of distillate fuel oil we make along the eastern seaboard in a year.

Under that contract our price increased. The price to us from that independent refiner increased one-eighth of a cent a gallon or for each 5-cent increase in the crude-oil price. So we, today, are paying for that distillate fuel oil that we are putting in storage and for use next year, five-eighths of a cent a gallon more than we paid for it prior to the time that the crude increase became effective.

The CHAIRMAN. Then, you did not do it in any sense because the Standard of New Jersey did it. How soon after they did it, did you do it?

Mr. WILLETTS. I don't remember the exact dates that the Standard Oil Co. of New Jersey did it, but I would say it was somewhere in the vicinity of 6 or 7 days.

The CHAIRMAN. In other words, making a total increase of your company—two increases you had, did you not?

Mr. WILLETTS. We increased gasoline about five-tenths, and eight-tenths, and we increased distillates just six-tenths, and we increased kerosene just six-tenths, and we increased residuals 15 cents a barrel. For those residual oils, we sell in the gulf at a quarter over, we only went up 15 points in the eastern seaboard.

The CHAIRMAN. In view of the fact that your company followed suit, we will say, of the Standard in increasing its price, that causes me to ask again, as I have asked of others, how do you account for the fact that so frequently when one company raises its price, the others follow?

Now, forget for the moment your experience in the spring, that was an unusual experience where you were not followed.

Mr. WILLETTS. We have had that happen to us before.

The CHAIRMAN. Have you?

Mr. WILLETTS. Yes, sir.

The CHAIRMAN. Well, I guess it illustrates that hope springs eternal and that is probably the reason that you increased it again in June.

What we want to find out, and I am very sincere in this: I have inquired so many times and have not been satisfied, that I suppose I should be discouraged, but I am not—I am going to continue to ask. How does it happen that so frequently when one company raises its prices to the consumer that others who are doing business in the same area make a similar increase?

Mr. WILLETTS. Well, I believe I can explain it, sir.

The CHAIRMAN. Well, I hope so.

Mr. WILLETTS. At least I can explain it, and I hope I can make it clear for you.

We are talking about increases right now going up, but they also go down, too.

The CHAIRMAN. When they go down it is only for a day or two and there is a price war, but I am——

Mr. WILLETTS. I wish that that were true.

The CHAIRMAN. From my experience in my locality in the State of New Jersey, I am basing my questions entirely upon personal experience which I think includes the experience of the others as well.

Mr. WILLETTS. Well, to begin with, the first company in an area and

generally it is the largest seller of product in the area, as we know, on a price increase assumes a great deal of risk. We found that out in February. On the other hand——

The CHAIRMAN. Of course, nothing ventured, nothing gained, you know.

Mr. WILLETTS. I think that that is true, sir.

On the other hand, the biggest marketer generally has the most to gain if his price increase sticks, or he has the most to lose if it does not. So, generally, in the section in which we are the largest marketer, we think, and on some products, whether we like it or not if we want more money for our goods and we are justified in having more money, we probably are the ones that would initiate it. We have got more to gain and more to lose if we do not.

So we initiated it in this instance that I have mentioned on June 10, and while I don't know just why every other company does, I believe, or I assume, that they are affected by the same economic factors as we are, and that they have the same impelling and compelling reasons to do that or something similar, and therefore they do likewise. If they don't feel that they have those same compelling or impelling factors, then they do what they did in February, and they do not move.

Now, in going down, in decreasing prices, we are in somewhat the same situation but in another trend. We find as we go around the country or around the marketing territory that people are quoting this price or that price to our customers that are less than the prices at which we are selling them, and if we want to retain our business we find that generally we have to meet the price. And generally we do.

The CHAIRMAN. That means that you have to meet it by increasing it?

Mr. WILLETTS. By decreasing it; I am talking about when prices are decreasing.

The CHAIRMAN. I am still interested to know what your answer is as to how does it happen, assuming as you have said that you think they must have the same reasons; how does it happen that when one company increases, the others usually follow suit?

I gave the illustration yesterday and I do not know whether you were present or not, but I have given it on so many occasions that it would seem to me that it would be assumed by a witness as soon as I asked the question, at our traffic circles.

Mr. WILLETTS. I will try to answer that, and I remember what you said.

The CHAIRMAN. Now, follow that right around that circle, and tell me why that happens and sometime within 6 minutes, and certainly before the day is out.

Mr. WILLETTS. Well, I would like to say in respect to that, you are talking about similarity of prices at the retail level. As I have said here the dealer establishes his own price and let us take your traffic circle; maybe there are 4 or 5 or 6 stations on the traffic circle.

The CHAIRMAN. Before you get too far along with that, when you say the dealer fixed his own price, do you think that is always the case?

Mr. WILLETTS. Yes, I do, sir.

The CHAIRMAN. Is it the case of where the stations are owned and controlled by the supplying company?

Mr. WILLETTS. When you say owned and controlled, I would assume——

The CHAIRMAN. They have a way of leasing it.

Mr. WILLETTS. I am assuming that that is a station we lease; yes, sir, he fixes his own price.

The CHAIRMAN. Is that so?

Mr. WILLETTS. Yes, sir.

The CHAIRMAN. That certainly is news to me, and I thought they maybe had some suggestions as to what the price should be; I did not know that they had that freedom of action that you indicate.

Mr. HESELTON. Do you mean to say that the dealers in the country fix their own prices and come up all over a certain section to a tenth of a cent simultaneously, all of a sudden one morning?

Mr. WILLETTS. I think the dealer fixed his own prices.

Mr. HESELTON. Well, you said that, and I wonder if you mean to say to the members of this committee and want us to believe—how many dealers do you have?

Mr. WILLETTS. 35,000 in the total United States.

Mr. HESELTON. Is it your experience that they simultaneously go to a tenth of a cent increase at a given moment? Suddenly, they are inspired by all of these economic factors, and they all come to that conclusion, and do not deviate by a tenth of a cent. You want us to believe that?

Mr. WILLETTS. I am going to try to explain that deviation by a tenth of a cent that you mentioned, Mr. Heselton.

I believe that when a dealer's price is increased, the tank wagon price to him—and that is the way they are generally sold—we generally increase it the same. So he undoubtedly would move to recover his increase in costs fairly rapidly in a given area.

Mr. HESELTON. They all do it at the same time?

Mr. WILLETTS. I don't know that they all do it at the same time, but in a relatively short period of time I think that that is correct.

Mr. HESELTON. I can assure you that what the chairman said is true in his area is true in my area.

The CHAIRMAN. What surprises me, Mr. Heselton, is that men who have gotten to the point of representing large companies in important positions do not know the facts of life to the extent that we do who buy the gasoline.

Mr. WILLETTS. Well, may I not comment on that?

The CHAIRMAN. I would like to have you comment. It would seem as if you live in an ivory tower, and you do not know what goes on around the traffic circles like we do who buy the gasoline.

Mr. WILLETTS. I assure you, Mr. Chairman, that that isn't the case. We don't live in an ivory tower, we work just the same as you gentlemen do, and we work hard at this business. We don't live in an ivory tower.

The CHAIRMAN. I was just commenting on things that we hear about.

Mr. WILLETTS. I haven't had a chance to answer the question you raised, and I would like to have the opportunity of seeing if I can answer it for you, sir.

I started out in prices at the retail level. I believe that in a given area that if there are a number of stations right in that area, and we will take the traffic circle and talk about it, that you mentioned, that if one man drops his price in that area, and decreases it, it isn't going to be too long before the other dealers in that same area drop theirs. They were similar at the time they started and they will be similar when they stop, but that is a real sign of intense competition.

The CHAIRMAN. I have heard that before.

Mr. WILLETTS. And I believe that the quickest way for any man to know this is to just get one of those stations on one of those circles, and see what happens. At the tank-wagon level, we have one tank-wagon price in a given area at which we sell all of our customers, and we try and keep that in a competitive position for the sake of our customers.

Now, we know at times and we have got a lot of salesmen in the field; they are digging up this information and in fact dealers are quite vocal if they think we charge them more than somebody else, and certainly big consuming accounts to which we sell are very vocal, and they have purchasing agents whose job it is to find their specification of material at the lowest price, and they will tell us very quickly if we are charging too much. Our jobbers will tell us very quickly if they think we are charging them too much.

The tendency is then that prices do appear somewhat similar, but the fact of the matter is that they are not really similar.

I would like to just give you some figures about similarity. On occasions my company, the marketing department in which I am interested, makes examinations of prices in certain cities we want to know what is happening in. And we do this through our sales force. I have some figures somewhere here, if I can find it, that I would like to give to you. I don't know what I did with them at the moment, but I have them here somewhere.

Here is a survey we made in certain cities in the central and eastern part of the United States. They showed, of the dealers selling our brand in the city of Chicago, there were 27 different posted prices as of the date we made this survey. In Detroit, there were 8; in Kansas City, 30; Milwaukee, 15; St. Louis, 13; and in Albany, there were 12; Boston, 16; Hartford, 30; New York, 13; and Rochester, 26.

The CHAIRMAN. That is the number of 35,000, is it?

Mr. WILLETTS. The 35,000 aren't in these 10 places; I have used these as examples.

The CHAIRMAN. I understood you to say you had 35,000 dealers and you mentioned 13, 15, and 17, and I wonder if that was the total out of 35,000?

Mr. WILLETTS. No, these are the different prices, and not dealers. These are the different price postings in these cities.

The CHAIRMAN. I understand that, but I assume they were different dealers that had different prices.

Mr. WILLETTS. Yes.

The CHAIRMAN. The city in which you referred to 13, they are dealers, are they not?

Mr. WILLETTS. Yes, they are dealers, but what I am saying in the city of Chicago——

The CHAIRMAN. That did not seem to me a large number out of 35,000.

Mr. WILLETTS. But in the city of Chicago, the fact is that there were a lot of different prices for the same product in that area, on 1 day.

The CHAIRMAN. Well, maybe I ought to buy my gas in New York, then, instead of in New Jersey. I can only tell you what happens around my vicinity, of Camden, and if you have any figures on that I would like you to give it.

Mr. WILLETTS. I do not have specifically Camden. I wish that I did, Mr. Chairman; but may I just finish, Mr. Heselton?

Mr. HESELTON. What do you mean by product? Is it gasoline?

Mr. WILLETTS. Those are prices on gasoline at the retail level. I would also like to say this: That in the city of New York you can find a lot of prices that are posted alike, but I am very certain that if you want to shop for gasoline in the city of New York, while the posting on the pump looks about the same level as some other pump, you can get a discount of a half a cent, or may a cent, or 2 cents, and they give discounts, and they not only give you discounts off the posted price, but they give you other inducements to buy from them, and they may give you a free grease job. In fact, I just read on Sunday in the Herald Tribune about a dealer in the Los Angeles area who, with the purchase of each 10 gallons of gasoline, would have your horoscope read.

Now, I do not know what that is worth in terms of gasoline prices. But I am just trying to point out that these dealers do a great many things that tend to make it appear to me that similarity is less actual than it appears.

Mr. HALE. When he reads your horoscope, does he tell you how much you are going to have to pay for gasoline?

Mr. WILLETTS. I don't know; I thought it was just an interesting comment, even it is was a little useless.

The CHAIRMAN. If it happened, he would probably have to say it was the same price as at the next corner.

Mr. WILLETTS. I think if he said it quite accurately, he would say that the fine quality of gasoline he is buying today at this price is well worth it.

The CHAIRMAN. That may be so.

Now, last year in the spring, there was a general agitation that came to the attention of this committee in which the Petroleum Administration for Defense joined for an increase of, I think it was, a half a cent a gallon for heating oils in the east coast to cover the higher tanker rates. Now, later in the year, that increase of half a cent was granted by the Office of Price Stabilization. Have you at any time this spring, or this summer, reduced heating oil prices by this same one-half cent per gallon to reflect the lower tanker rates?

Mr. WILLETTS. We have in effect, and have had since the end of April——

The CHAIRMAN. Well, now, could you answer that "Yes" or "No", whether you have increased it or have not increased it?

Mr. WILLETTS. We have in effect a decreased price for summertime of half a cent a gallon right now.

The CHAIRMAN. Based on lower tanker rates?

Mr. WILLETTS. It is difficult to testify to that; it is a decrease in the price of half a cent a gallon.

Mr. HESELTON. May I ask a question there? That is your discount for the purpose of inducing people to fill up storage?

Mr. WILLETTS. Yes, sir.

Mr. HESELTON. That is no reduction. That has been in effect a number of years.

Mr. WILLETTS. Well, I am not quite so sure, Mr. Heselton, that it has been in effect. It has been done in some years, and it was not done in others.

The CHAIRMAN. I think that if I have not sent it up to my Camden office, I have the contract offered to me for my supply on that very line, the same as every summer.

Mr. WILLETTS. We have offered it to each of our customers.

Mr. HESELTON. My point is that that is not an answer to your question.

The CHAIRMAN. I do not think so, either, but, however, the witness is answering the questions to his satisfaction, if not to ours.

(The following additional information was later submitted:)

Chairman Wolverton stated that a one-half cent per gallon price increase for heating oils in the east-coast area granted by the Office of Price Stabilization last spring was intended to cover higher tanker rates. The witness was asked whether heating-oil prices had been reduced this summer to reflect the lower tanker rates since prevailing.

Mr. Willetts replied that we currently had in effect a one-half cent a gallon discount for the purpose of inducing people to fill up storage during the summer months. We do not have an established practice of granting summer discounts and, in fact, did not give such a discount in the summer of 1952.

It should also be pointed out that the actual increase granted by the Office of Price Stabilization was 0.80 cent per gallon in consumer prices in the North Atlantic area. By specific provision, 0.15 cent per gallon of this increase was reserved for the jobbing and distributing function. The statement of considerations issued by the Office of Price Stabilization at that time (Federal Register, July 2, 1952, p. 5940) revealed that the increase was granted primarily in order to make adequate supplies of middle distillates available on the eastern seaboard. The problem, according to OPS, was complicated by many factors of product price on the eastern seaboard and on the gulf, competitive forces within the industry, fluctuating transportation costs, and even the vagaries of the weather. There was no indication in the statement of considerations as to how much of the remaining 0.65 cent per gallon price increase was granted because of fluctuating transportation costs. According to information considered by the OPS Petroleum Branch, however, 0.5 cent per gallon of the increase was warranted, because eastern seaboard prices were frozen on a price basis reflecting a gulf-refinery price of 7.5 cents per gallon, whereas the lowest gulf quotation in the trade press was 8.0 cents per gallon. In addition, OPS recognized that additional costs had been incurred by reason of seasonal storage tankage; consequently, a very small amount, if any, of the increase could be definitely assigned to the factor of transportation costs. The total increase finally granted by OPS was, according to press reports, considerable lower than that recommended by the petroleum specialists in that agency who were studying the problem.

The CHAIRMAN. Now, did your company follow the others in increasing the crude-oil fuel prices by 25 cents a barrel?

Mr. WILLETTS. Yes, sir.

The CHAIRMAN. How soon after the others?

Mr. WILLETTS. My recollection is that we increased the price of crude oil through our Magnolia Petroleum Co., the affiliate that has most of our production, on Wednesday afternoon, and as I recall it the price increase was made effective on Monday morning.

The CHAIRMAN. Did you do so because you were losing crude-oil sources to your competitors?

Mr. WILLETTS. I think we had two reasons. We weren't actually losing them, but we were concerned that we would because we are buying 47 percent of our crude; and secondly, we figured that we had

had increases in costs and the compelling reason to raise the price for other people applied to us. Therefore we increased our price by approximately the same amount as other companies did.

The CHAIRMAN. I understood the witness yesterday representing the Philipps Co., which was the prime mover in this increase of price per barrel, to give as the reason that his company had done it was that it was necessary to stimulate more exploration for oil.

Did your company do it for that reason?

Mr. WILLETTS. Well, I pointed out that we buy 47 percent of our crude and we buy 17 percent of our finished product, and the cost of that purchased crude and the cost of those finished products had gone up to us. We believe that higher prices are in order in order to stimulate increased drilling; we believe that. I do.

The CHAIRMAN. Did you do it for that reason?

Mr. WILLETTS. No, but we had in mind and we did it because we were concerned about connections and we were concerned about the increase that had taken place in our costs.

The CHAIRMAN. Do you think an increase to increase exploration was justified?

Mr. WILLETTS. Yes, I do.

The CHAIRMAN. Do you say that notwithstanding the testimony that was given by Mr. Gennings, on May 13, that though there were 3 percent less development wells, there were 6 percent more exploratory wells, and 10 percent more physical crews that worked during the first quarter of this year than the same period last year?

Mr. WILLETTS. Yes, sir. I agree with Mr. Jennings' statistics, and that seems to be the figures reported to us.

But may I just say this, Mr. Chairman: That there are some other statements in Mr. Jennings' testimony and I have it here, and those statements are as follows—keep in mind he was talking about the import problem.

The CHAIRMAN. Does it have a bearing on the question I asked?

Mr. WILLETTS. I think it does; yes, sir.

The CHAIRMAN. I do not want to get far afield, and we do not want to discuss everything that happened in the Ways and Means Committee, but I have tried to cull out that which has a particular applicability to what we are doing in this committee.

Mr. WILLETTS. I think this is quite appropriate to your question, sir.

The CHAIRMAN. Very well.

Mr. WILLETTS (reading):

> There is still a lot of oil to be found in the United States—

and I am quoting from Mr. Jennings' statement—

> but we must not forget that oil is an exhaustible resource and the supply is limited. Oil is particularly important in the United States because of its highly industrialized economy. Competent authorities estimate that United States oil consumption by 1957, will be about 14 million barrels a day, almost double the 1952 rate.
>
> Unless oil finding in the United States is far is excess of past performance, consumption of this magnitude would require oil imports substantially above current levels.

I think that is quite pertinent to your question, sir.

The CHAIRMAN. Very well. Now, we will pass on to the next one.

Can the 25-cent barrel increase in crude oil price be sustained if the price of crude oil in the Middle East is not also raised?

Mr. WILLETTS. That is a pretty complicated question. I don't know that I can answer it categorically.

The price of oil in the Near East is a question. That is really a complicated question, and one that is quite unresolved, and I am in no position to say anything about it. It would seem to me, though, that if the price of oil, crude oil, in the Middle East is not increased, and I don't know whether it is going to be, that at least the elements are there that might have some effect on this crude-oil price. Now, whether they will, I think it will be conjecture on my part.

The CHAIRMAN. Do you think it would be reflected in a higher price for Middle East oil or would it be reflected by a greater importation of Middle East oil?

Mr. WILLETTS. Well, I don't know whether the price will change. As I say, that is a question that is unresolved.

The CHAIRMAN. If it does not change, would it reflect a possibility of a greater importation?

Mr. WILLETTS. I should think that that possibility would be there, because after all, the price of Near East oil, and particularly with the low transportation rates. There are some spots that it might have an economic advantage over oil from some places in this country or from Venezuela.

The CHAIRMAN. As a matter of fact at the present rate, tonnage rate, and at its present price, it can be laid down here in the United States cheaper than it can be brought from the gulf area, can it not?

Mr. WILLETTS. I think at the present time that is correct; yes, sir.

The CHAIRMAN. Now, can Venezuela maintain European markets against the lower price of Middle East crude oil, in your opinion?

Mr. WILLETTS. Again, assuming that Middle East oil remains where it is, Venezuela will find itself—exporters in Venezuela will find that they would have quite some problem in competing with oils from the Near East.

The CHAIRMAN. Does that mean that there might necessarily have to be a drop in price of Venezuela oil?

Mr. WILLETTS. Not necessarily. I imagine the Venezuelan exporters would have to give that a great deal of study. I am not so thoroughly familiar with world markets that I could comment on that other than what I have said, Mr. Chairman.

The CHAIRMAN. Well, my question is based upon your answer that you thought that the Venezuelan price would preclude it from the European market as against the lower priced oil from the Middle East.

My next question would be, then: If that be true, if they would have to drop their price to meet that situation, would that not have an effect in turn on this domestic price in this country?

Mr. WILLETTS. Well, certainly the elements are there that may have an effect. Whether it actually will or not, and what the eventual answer is going to be, I just don't know. I don't think that I can comment on it. The elements are certainly there, and it is a highly complicated unresolved situation at the minute.

The CHAIRMAN. Does your company import?

Mr. WILLETTS. Yes, sir, we do.

The CHAIRMAN. May I ask again, do you think that there might be an increase in the price of Middle East oil?

Mr. WILLETTS. I would prefer, Mr. Chairman, not to express an opinion on it. It is a question that is unresolved, and I just don't know.

The CHAIRMAN. The reason I asked the question is because it would seriously affect the Mutual Security Administration, would it not, if the price goes up it is going to bring an increase of costs to this Government?

Mr. WILLETTS. It is my understanding, Mr. Chairman, that our Government is not financing at the present time crudes to these countries with the exception of a very limited amount of specialty crudes, specialty in the instance meaning the type of crude that might be used in certain lubricating-oil manufacture.

The CHAIRMAN. That is very encouraging to know that something is dropping off. I happened to be on the committee to study economics, the Colmer committee and the Herter committee, in the late 1940's in Europe, and the question of Middle East oil looked exceedingly big in that picture, exceedingly so, so that the question of price is a very vital question.

Now, of course, if we are cutting down—I have not followed the figures recently to see how much below it was what we anticipated it would be—but if we are dropping down, that is encouraging. But if the price goes up, it is going to be felt in this country in some manner in our sustaining the Mutual Security Administration. I am inclined to believe that if the price of Middle East oil is raised, that is from about $1.50 a barrel, it will have an effect on our aid program.

Mr. WILLETTS. In the Persian Gulf, I believe it is $1.75, based on gravity and there may be some lower prices than that.

The CHAIRMAN. I have the impression it had been about $1.65 and it was down to about $1.50.

Mr. WILLETTS. That may be for some grades based on gravity or type.

The CHAIRMAN. When you consider that, whether your figure or my figure is the correct one, with lower tanker rates as prevailing at the present time, it would seem to me that the inevitable result would be that there would be a great increase in importation of Middle East oil, and that that would raise some question as to whether from that standpoint, and if that happens, whether you would be able to maintain the increaes of this 25 cents per barrel.

Mr. WILLETTS. How much Middle East oil could be imported, Mr. Chairman, I don't now exactly, but I should think some of the limiting factors would be transportation, the availability of ships; and if we took the ships that are now tied up out of their retired position and put them back into the service, there is the possibility that by doing that the rates on ships may go up somewhat. I think the question——

The CHAIRMAN. There are several questions in connection with that that I would like to ask, and I do not like to take as much time as I am, but I have given considerable attention to the preparation of these questions which I think go to the fundamentals of this question that this committee is called upon to consider, and I am anxious to go through with them.

But for the time being, and having in mind that the committee will go on again this afternoon, I trust, I am perfectly willing to relax at the moment for any others who wish to ask any questions. I have several more on this question of Middle East oil that I have not com-

pleted yet, but it may be that the discussion so far has raised some questions in the minds of some of our other members and I would like them to have a chance at this moment to express themselves.

Mr. HESELTON. Mr. Willetts, can you give me in terms of stations, and I want the information if you have it, and if you do not have it, would you supply it, on these points: How many stations your company owns and operates? I am talking about filling stations.

Mr. WILLETTS. Owns and operates, that is one figure that you would like. As I testified here, it is between 50 and 60 that we own and operate.

Mr. HESELTON. The second category—that is 50 and 60, you say?

Mr. WILLETT. We own and/or lease them and operate them ourselves, with our salared employees.

Mr. HESELTON. I want to get—I will run through the categories—how many you own and operate; and second, how many you own and lease; and third, how many you supply exclusively; and fourth, how many you supply, but not exclusively; and fifth, any other forms of outlet that you have.

Mr. WILLETTS. Well, now, I think I find Mr. McIntosh, who is our chief economist, has given me some figures.

At the end of December of 1952, we owned and/or leased 46 stations.

Mr. HESELTON. Now, can you break that down?

Mr. WILLETTS. That is owned and leased and operated.

Mr. HESELTON. How much of those did you own?

Mr. WILLETTS. I can't tell you that from these records.

Mr. HESELTON. Can you supply that statement?

Mr. WILLETTS. Yes, sir.

(The information follows:)

Socony-Vacuum owns 29 and leases 15 of the stations which it operates.

Mr. HESELTON. All right, will you proceed?

Mr. WILLETTS. We own and/or lease, and lease out to others and are operated by others, 7,154 service stations in the total United States. We sell gasoline through dealers other than these in which we have some real estate interest, ownership or lease, through 18,739.

Mr. HESELTON. Is that exclusive? You supply them exclusively?

Mr. WILLETTS. No; that is the other, the open dealer outlets that are owned by some other person or leased by some other person. But they sell our products.

Mr. HESELTON. There are two categories; one you supply exclusively, and the other you supply, but not exclusively.

Mr. WILLETTS. No; I am not mentioning the exclusive arrangement, I am just giving you the number: (1) of the stations we own and/or lease and operate directly; and (2) the stations we own and/or lease and lease out to others; and (3) the stations through which our gasoline or products are sold that are owned by someone other than Socony-Vacuum, but do sell our products.

I have no figures on how many we supply when you say exclusively. You mean they don't sell any other grade of gasoline, for example?

Mr. HESELTON. Yes.

Mr. WILLETTS. I have no figures on that, but I would say that a very high percentage of the stations selling our goods sell our gasoline exclusively, but they do sell other products. I am thinking in terms

now of motor oils, accessory items that they purchase from some other company.

Mr. HESELTON. Do you have any other form of outlet?

Mr. WILLETTS. Well, there are outlets selling our products who are supplied by our jobbers, and while I do not have a current breakdown of all of these things, the connection is with the jobber and we have no connection with them, only he sells our goods, and there are 9,016 outlets supplied Socony-Vacuum gasoline by the jobbers who handle our products, and sell them.

Mr. HESELTON. You are relatively one of the big suppliers in the Northeast, is that true?

Mr. WILLETTS. Yes, sir.

Mr. HESELTON. I think in previous hearings, you gave an estimate of it percentagewise, and how much of the product you handle, of the total. Are you able to give that this morning?

Mr. WILLETTS. Well, our percentage has decreased considerably in the last 7 or 8 years.

Mr. HESELTON. Do you know what it is at the present time?

Mr. WILLETTS. I would say in taking in New York and New England, Mr. Heselton, it would be somewhere around 19 percent, but I can give you that figure. I don't happen to have it right available, but I can give you that figures as we estimate it based on certain tax returns that come through the API.

Mr. HESELTON. I appreciate your supplying it.

Mr. WILLETTS. All right.

(The information follows:)

In appendix I which is attached hereto there is listed the percentage of total gasoline sales in New York and New England enjoyed by Socony-Vacuum in each year since 1939. It will be observed from these figures that our percentage of the market has been steadily declining from a high point of 26 percent in 1944 to a low of 18.7 percent in 1952. This is not to say that we have been losing business in the area as our total sales have been increasing.

APPENDIX I.—*Socony-Vacuum gasoline sales, New York and New England*

Year:	*Percent of total*	Year—Continued	*Percent of total*
1939	24.1	1946	25.0
1940	23.6	1947	22.8
1941	24.0	1948	21.2
1942	24.5	1949	20.5
1943	24.1	1950	19.2
1944	26.0	1951	19.1
1945	25.5	1952	18.7

Mr. HESELTON. You referred constantly throughout your direct statement and in answer to the chairman's question, to "we." Who constitutes "we"?

Mr. WILLETTS. Socony-Vacuum, and there are a great many of us and I refer to those of us in the company who do the marketing of our products.

Mr. HESELTON. Well, now, that is a limited group, I assume, who make the policy decisions as to price?

Mr. WILLETTS. Well, it is relatively limited, but in our company when we make, as I pointed out in our statement, before we make any price we talk to our managers in the field and they are in, and we start most of our policymaking in our company at the bottom and not the top about marketing. We try to keep it realistic by using the

experience of the great many people, district managers, division manager, and staff people, as well as regional managers and those in the 26 Broadway office, which group is composed of staff men who study the problems of our business and the general manager of our marketing operation, and myself.

Mr. HESELTON. I can understand that as a thoroughly sound operation. What I am trying to get at is who makes the final decision, and that is people in the top branch of the company; is that not true?

Mr. WILLETTS. When we make a move such as we did on June 10, it would have the approval of the marketing director; that would be me. And before we made that move I discussed it with the board of directors of my company and they concurred in it.

Mr. HESELTON. All right, then, that is where the policy is set; is that not true?

Mr. WILLETTS. No; there are other moves that our men could make, and just take right now: There is one company since the price increase following crude in respect of distillate oils, that has decreased its price.

Mr. HESELTON. You mean it has decreased the increase and wiped out the increase?

Mr. WILLETTS. It decreased the price it posted after the crude prices.

Mr. HESELTON. First it increased it and then it decreased it?

Mr. WILLETTS. That is true.

Now our people in the field can meet that price, if that is what they deem it wise to do. They can go right ahead and meet it. Our manager in Boston, for example, can go ahead and he generally calls and tells us what he has done, and if that is his estimate of the competition in that area that he must meet, and if he finds that it is affecting him, he has the authority to go ahead and make that decrease in our prices and sell our goods at those prices.

Mr. HESELTON. All right, but what I was trying to develop was the actual policy decision, because I wanted to ask you a question or two with reference to that. When this administrative setup has completed its work and it has gone to you and the board of directors before you announce a posted increase in these four categories, I assume you take a great many economic factors and other factors relating directly to the company's position, into consideration. I assume you also have in mind the effect it might have on your company, and on your profit.

However, this morning Mr. Bennett brought out, I thought, some very significant figures and adding to that I would like to add from your statement the cash dividends paid over this period during which you say that a very substantial increase in costs to the company came about; and according to your report it shows that in 1948 it was $1 per share that was paid; and in 1949, $1.10; and in 1950, $1.35; and in 1951, $1.60; and the estimated figure for 1952 at that time was $2.

Mr. WILLETTS. We paid $2 in 1952, that is my recollection.

Mr. HESELTON. Certainly your shareholders could have no complaint as to the manner in which you operate so far as they were concerned over this period of 5 years. Is that not true?

Mr. WILLETTS. Well, our shareholders have indicated general satisfaction with the operation of the company, but I must point out that

there are a great many of them who indicated at the last stockholders' meeting that they would like to see us increase our dividends somewhat to them.

Mr. HALE. What is that?

Mr. WILLETTS. That they would like to see us increase our dividend above the rate of $2, at the rate we are now paying, and they would like something extra, in other words.

Mr. HALE. They are like other stockholders in that regard.

Mr. WILLETTS. I guess they are not entirely dissimilar.

Mr. HESELTON. In addition to that, in 1951 you issued an additional 3,180,000 shares of stock?

Mr. WILLETTS. That is the 10 percent I mentioned, Mr. Heselton.

Mr. HESELTON. Now, with that overall, and the questions asked by the chairman and others, I want to know what consideration this small group gave to the economic impact upon the users of your products by this increase? I assume that you weighed that rather carefully?

Mr. WILLETTS. Yes. We don't like higher prices.

Mr. HESELTON. Right on that point it has been said here yesterday and I thought with a certain amount of criticism and you repeated it here today, your position is that you would like to see a more stable condition with reference to prices?

Mr. WILLETTS. We certainly would, sir.

Mr. HESELTON. It strikes me as rather peculiar that people who hold that point of view and know that there is an administration trying to bring about that result, should take the lead in breaking the line rather than on the other hand taking it rather easy until you find out what this administration can do.

Mr. WILLETTS. Well, I would like to say this, Mr. Heselton, in connection with that. We are very conscious of the effect of our prices on the consumer. We make price increases reluctantly, but we thought we were entirely justified in attempting to recover some of our increased costs. We have not increased our price in proportion to what some other companies have increased the prices of their material. While we dislike this immensely, this inflation cycle, this constant increasing of everything, we think that we have got to treat it realistically.

We know that we are still in an inflationary period, and there are a great many things happening that tell us that, and the size of the deficit as just announced, and the fact that our Treasury Department has got to sell tax-anticipation certificates of $5½ billion soon, and the increased wages being announced by a great many companies, and great basic industries, automobiles, and steel and electrical; and we, in fact and without relationship to anything else, have increased our wages to our employees, somewhat over 40,000 in the country, by another 4 percent, and while we do not like the continuation of the inflation spiral we know that in negotiating with unions at the local level—and we have had a great many negotiations going on—that practically all of them were demanding increases in salaries and wages and we gave our 4 percent to those who were not in labor organizations.

So this cycle is going on, and while we do not like it, and we do not enjoy it, we would much prefer to see something else happening in the country, and we think that people are working on it and definitely trying to do something about it, and it seemed to us that the realities

of life were such that we should do what we did in the interest of our stockholders and in the interest of having enough money to go on, and in the interest of the developing of enough facilities in crude that we could take care of that customer at a time when he wants to be taken care of.

Mr. HESELTON. In the face of that excellent statement of principle, the sheer, bald fact is that you contributed to the inflationary situation.

Mr. WILLETTS. Yes.

Mr. HESELTON. And you did it deliberately, and did it after you had taken into consideration the impact it would have upon users of your products. There is no doubt about that.

Mr. WILLETTS. We certainly, in this cycle that is going on, in one thing contributing to another, I suppose we did, and I think that we did contribute; but at the same time I point out that we, along with other companies, have been doing something for their employees to try and keep up with this. The 4 percent I mentioned to you, that we have just contributed, is an instance on the part of our company and I think the fact is recorded as far as certain other great industries are concerned like automobiles, and steel, and well, I have read a great many; they just don't come to mind at this present time.

Mr. HESELTON. Will you tell me how you, as a responsible official of a very important part of our economy, can possibly justify that decision, and that action? And I am not talking about the things we have gone over, but I am talking now about the administration that demonstrates its prime goal, is to bring about a stabilized condition and cut the continued lessening value of the purchasing power of the dollar, and balance the budget and try to get some economic sanity into this Government. Yet, here is your industry, one of the vital industries in this country, apparently all unanimously perfectly willing to contribute to the defeat of that effort of this administration.

Mr. WILLETTS. We do no want to contribute to the defeat of the major effort that is being made to control inflation in this country. That would be against our own very best interests to do that, sir.

Mr. HESELTON. I am sure it would.

Mr. WILLETTS. And we know that.

Mr. HESELTON. Of course you do.

Mr. WILLETTS. But we also know that there will come a time in the history of a company or in its life when its increase in costs are such that it should recover them. We also know that this second increase that we made, based on the increase in cost of crude, because we buy so much of our crude, because we buy so much of our finished products, we do not see how we can absorb that much money into this company and take it out of the company and the stockholders of the company.

Mr. HESELTON. Well, the record clearly shows that you have been doing it over these years, and here at the very outset of this administration, when you recognize the importance of its success of its program, instead of some restraint and instead of some cooperation, it seems to me that you are definitely convicted of contributing to another spiral of inflation which will make the task of this administration just that much more difficult; and yet you want, I am sure, and your board of directors wants, to see this administration succeed.

Now, if you cannot do it, in your case, and if you cannot convince your stockholders that it is in their interest in view of this record, how do you expect other large segments of our economy to refrain from adding to the inflationary condition, and making just that much more difficult for this administration to succeed in its program?

Mr. WILLETTS. Mr. Heselton, I think it is difficult in a time like this to do what you say. I know we are very conscious of this, and we have been and we have talked of it in our board time after time. But we are confronted with other things, and therefore, as I expressed in my statement, we have to recognize the realities of the current situation.

We know that the price of steel has gone up and things we buy have gone up. We use a lot of steel and we use steel in building tanks and in drilling wells, and a great many uses.

Mr. HESELTON. I understand that, and let us not waste any more time on that. That argument can be addressed to every situation that exists in this country. Some product goes up and that justifies another user of that product to go up and you have an endless chain and you never stop.

How much is this increase that you have posted going to cost your users per year?

Mr. WILLETTS. It is going to cost our users, you mean?

Mr. HESELTON. Your customers; yes.

Mr. WILLETTS. Well, we sell in the United States about 200 million barrels of products, of total product. I presume you are talking about the latest crude increases of the Rocky Mountains. We sell about 20 percent of that 200 million barrels west of the Rocky Mountains, and so we sell 160 million barrels in the area where the crude increase took effect.

On the assumption that it has gone up a quarter and to the best of our study the product prices are reflected about the quarter increase in crude, it is easy of computation. It is a quarter on 160 million barrels, or in the vicinity of $40 million.

Mr. HESELTON. $40 million a year?

Mr. WILLETTS. On an annual basis.

Mr. HESELTON. And you also anticipate, as I suppose everybody in the industry does, that there will be a continually rising demand for these products, so that there will be a continually rising cost?

Mr. WILLETTS. Yes.

We anticipate a continuing rise in demand and we are anticipating it year after year. In respect of this $40 million, may I make another statement?

Mr. HESELTON. Yes.

Mr. WILLETTS. I want to leave it clear that while there is $40 million we are talking about, that is not net to Socony-Vacuum. In other words, we pay out that extra quarter on all of the crude we buy, and we pay it out plus something on all of the products we buy. After we get through with that we don't know how long the prices are going to remain—and already they are cutting the price of distillate—and after that if we have anything left we have got to share it with the Government in the form of income taxes.

Mr. HESELTON. I am not talking about that; I am talking about the impact on your customers, the financial impact. Is that figure that you estimate the minimum figure on them?

Mr. WILLETTS. That is what I estimate, assuming all of these prices remain over a period of a year, and I have used an annual basis.

Mr. HESELTON. Now, I received on July 2 what I believe to be a conservative estimate of the overall cost of this increase for the next 6 months, for the balance of the year. I was told it would be at least $350,500,000. Would you dispute that estimate?

Mr. WILLETTS. I would think it was somewhat high.

Mr. HESELTON. What would your best judgment be as to the overall cost in the next 6 months?

Mr. WILLETTS. I would think it would be between $500 and $600 million, on an annual basis, rather than what you said, $373 million.

Mr. HESELTON. I said $353,500,000.

Mr. WILLETTS. That would be on the annual basis of $700 million, and I would say it would be nearer $500 million on the basis these prices stick, and remain in effect, in other words.

Of course, that is only an estimate, and we cannot have a balance-sheet figure at this time because we are estimating what is going to happen.

Mr. HESELTON. Well, if that is so, and that is going to be on one particular kind of product alone, something between $500 and $700 million additional cost, certainly we do not need to be economists to realize that that is an extremely significant contribution toward added inflation.

Conversely, it is a very serious thing to have happen at a time when the administration is honestly trying to do the things you respect them for.

Mr. WILLETTS. At the same time again, Mr. Heselton, we have got to try and keep the realities of the situation in mind, and as much as we dislike to see this done, we would sooner see the prices go down, we just have to keep in mind that these things are happening in our country and it is unhappy.

Mr. HESELTON. It certainly is unhappy.

Mr. WILLETTS. We agree with you on that, sir.

Mr. HESELTON. I hope that you will exercise just as much initiative in the effort to try to find reasons for decreasing it as you have for finding reasons for increasing it.

Mr. WILLETTS. We have been competitive, Mr. Heselton, in our business, and if we find that competition is going to sell this goods at less we will have no choice; we will have to meet them, and we will do so gladly. Not that we want to get rid of our money, but that is our system, and that is the one we work on. We want to keep our business.

Mr. HINSHAW. For the purpose of the committee, the Chair's instructions are that the committee adjourn at the end of your questioning, to meet again at 2 o'clock.

Do you want to withhold some of your questions until 2 o'clock?

Mr. SPRINGER. It is going to be rather lengthy, Mr. Chairman. It will be 20 or 25 minutes.

Mr. HINSHAW. Then I suggest that you carry over until 2 o'clock.

Mr. SPRINGER. That is satisfactory with me.

Mr. HINSHAW. We will recess until 2 o'clock.

(Whereupon, at 12:45 p. m., the hearing was recessed until 2 p. m., the same day.)

AFTER RECESS

(The hearing was resumed at 2 p. m.)

The CHAIRMAN. We will proceed.

I understand that Mr. Springer has some questions.

Mr. SPRINGER. Mr. Willetts, I have in my hand a news item from the New York Times of Monday, July 6, and I was not here yesterday. I was returning from my district over the Fourth of July. I want to quote what is said:

> Mr. H. R. Morrison, of the Northwest Oil Co., Portland, Oreg., wrote the committee that the major oil companies on the west coast refused to sell oil to independent oil concerns.

I quote Mr. Morrison as having said this in his letter to the committee, but again the quotation:

> We have not been able to buy any products from any of them for over a year now. The only way we can get any products is out of Texas, and now the price increase there stops that.

Does your company sell any products at all to independent companies?

Mr. WILLETTS. Oh, yes.

Mr. SPRINGER. Do you operate in the Northwest area, including Oregon and Washington?

Mr. WILLETTS. Yes; we do.

Mr. SPRINGER. For the record are you willing to sell to H. F. Morrison or the Northwest oil companies at your ordinary rates that you would sell to any other company or any other jobber?

Mr. WILLETTS. I do not think I can answer your question categorically, and I am not trying to avoid it, but I don't know our own supply situation now in the Northwest.

As I mentioned earlier in the day, at the present time we are just beginning construction of a new refinery in the northwest section of the State of Washington at Ferndale. We bought the property, and cleared it and we are about to start actual construction. We are doing it because we need more supply in the Northwest.

Up to now we have been bringing it out of Torrence, our refinery down near Los Angeles.

Mr. SPRINGER. Do you know whether Mr. Morrison has ever applied to your company to purchase products?

Mr. WILLETTS. No, sir; I do not.

Mr. SPRINGER. Providing that you are in supply sufficiently, are you willing to sell to Mr. Morrison or the Northwest Oil Co.?

Mr. WILLETTS. I would consider it, but I would have to ask about our supply situation of our General Petroleum Corp.

Mr. SPRINGER. My question was if your supply is adequate.

Mr. WILLETTS. I assume that we would be willing to sell if the gentleman would pay our posted prices, but right now I know that we are short of supply and we have had certain customers on the west coast. This started some year and a half ago, I think, when there was quite a shortage out there and we had tried for 2 or 3 years to discontinue certain sales to certain people on the west coast. We have had to carry them on for the simple reason that they at that time were unable to get any other supply. So we continued to carry those folks until such time as they were able to make some other adequate and satisfactory connection.

Mr. SPRINGER. Now, do you have any reason that you could give as to why Mr. Morrison could not purchase oil from any of the large oil producing and refining companies?

Mr. WILLETTS. No, I don't. I don't know the gentleman's case, and I thought that our supply situation on the west coast had now altered itself over what it was and I am thinking of an industry rather than our own company. But I know our own company is tight on supply on the west coast to meet its normal trade.

Mr. SPRINGER. Now I repeat this so it is not limited to Mr. Morrison and I quote beginning here:

> The major oil companies on the west coast refuse to sell oil to independent oil concerns.

Now, I take it that that is pretty general.

Is the reason that Socony has not been able to do that—not supply them—due to the fact that you have had a shortage out there?

Mr. WILLETTS. Yes; we were in very tight supply on the west coast and are. Our supply is pretty close now with our demand.

Mr. SPRINGER. Now, beginning today, how long a period of time has that tight supply been in existence?

Mr. WILLETTS. I would say it goes back a couple of years at least.

Mr. SPRINGER. Is there a reason for that?

Mr. WILLETTS. Yes. California and the west coast was considered self-sufficient on supply and they find, with their large increase in consumption and the low rate of discoveries relative to reserves, that they are in tight supply; and as Mr. Peterson, who testified here yesterday, I believe, said, no longer could that area be considered a self-sufficient area and it would be necessary to import crude or products or both into the area to take care of the normal demand of the area.

Mr. SPRINGER. Now let me ask you this: Is it possible for the California situation to take care of the Northwest?

Mr. WILLETTS. As I recall the figures today, and I am not entirely up on them, it seems to me that the California supply situation is today better than it was and it would seem to me that that customer or somebody should be able to take care of them.

Mr. SPRINGER. Now, let me ask you this, and I think this is the inference, and only the inference raised as a result of the testimony that has been given here by the proponents of this investigation. I say this in good faith.

I think the consensus of opinion is that there is a concerted effort on the part of the major oil companies to deny oil products to independent jobbers and oil concerns, and they are claiming that in that there is a violation of the antitrust laws. You understand that from the testimony that has been given, that you heard here last week. Was that not your understanding?

Mr. WILLETTS. I did not quite follow you.

Mr. SPRINGER. Will you read the question back, please?

(Question referred to was read by reporter.)

Mr. WILLETTS. My answer to it would be that I personally know of no concerted effort on the part of the majors to withhold the sale of products to other companies. I know that our own situation on the west coast has been a very tight one, and we have been importing oil in there and products in there to take care of our own supply

needs. That is one of the big reasons as well as a future one that we are spending the money or about to start spending the money, and we have already spent some of it for the acquisition of land and the clearance of it. We are going to build a refinery in Ferndale; we are going to build a refinery that has a capacity of some 35,000 to 40,000 barrels of oil a day to take care of our situation in that area.

But that, of course, won't be built for—well, it will be finished late next year, and we are starting it now.

Mr. SPRINGER. Are any of the other major oil companies doing the same thing?

Mr. WILLETTS. I do not know of any major oil companies building up there, although I think I saw a press release that one of the other companies, and I think it was Shell, was talking about buying a piece of land.

I think I saw a press release that Standard of California had bought land, but I am not certain of those two. That is my recollection from the press. I do not know of the fact that they are going ahead and doing anything.

Mr. SPRINGER. You understand, do you not, Mr. Willetts, that any concerted effort by the major oil companies to deny oil to independent jobbers or producers is a violation of the antitrust law? You understand that, do you not?

Mr. WILLETTS. Yes, sir; I do.

Mr. SPRINGER. I quote you from the same article:

> At the same time the committee received reports that the price boost would put 25 percent of the gasoline-station operators in the Dayton, Ohio, area out of business.

Do you operate in the Dayton area?

Mr. WILLETTS. We haven't much business in the State of Ohio. We do a little in the State, and I think we operate in Dayton.

Mr. SPRINGER. What is your reaction to that statement?

Mr. WILLETTS. I do not understand it because as I recall it, and I think I have my prices here that would apply to that State, if I can find them—in the State of Ohio, in June, we increased our retail price and tank-car price a cent a gallon on house brand, and we have no service stations of our own. This was just to our dealers and jobbers in that State, and I believe that the principal marketer in the State, Standard Oil Co. of Ohio, increased their prices somewhat about that amount. They increased their price on their premium grade 1.3 cents, and at their retail level, 1½, thus in fact opening up the spread.

I believe also—and I am taking this from memory now—that shortly after the elimination of price controls that the Standard Oil Co. of Ohio increased the retail price of gasoline by a limited amount, and I have forgotten the exact amount, but in effect it would give the dealer more margin and it would have the effect of giving him more margin.

Mr. SPRINGER. Who, more margin?

Mr. WILLETTS. The dealer, and we do not operate at the retail level.

Mr. SPRINGER. In the Dayton area or the State of Ohio?

Mr. WILLETTS. In the entire State.

Mr. SPRINGER. How much more margin is it going to give the operator.

Mr. WILLETTS. I am taking this from memory, but my recollection is that that increase opened the price about three-tenths of a cent and——

Mr. SPRINGER. That is margin for him?

Mr. WILLETTS. Yes, sir.

Mr. SPRINGER. The dealer?

Mr. WILLETTS. It would give him that much more margin.

Mr. SPRINGER. Then, can you explain why, any reason why, 25 percent of the operators would be put out of business in Dayton. Would that be a true statement?

Mr. WILLETTS. Irrelevant.

Mr. SPRINGER. Now, let me ask you this: There have been many statements made here in the last few days by the proponents of this investigation that great numbers of operators will either go out of business or go broke. Do you know of any of your own customers or jobbers or operators who have told you that they are going broke as a result of these raises?

Mr. WILLETTS. No, I do not, sir.

Mr. SPRINGER. Now, ordinarily, do you hear from those people if that is the situation or do you not hear from them?

Mr. WILLETTS. Yes, sir, we hear quite often from our customers that maybe they think they need a lower price so as to have a greater margin and they talk with us and they talk to us constantly.

Mr. SPRINGER. Now, do you keep pretty close watch on this local jobber proposition yourself, as a vice president in charge of domestic operations?

Mr. WILLETTS. Well, I do keep quite close to it because we initiated within the past couple of years, in a formal way, what we call a distributor relations program, and I have been highly interested in it.

Mr. SPRINGER. Now, as a result of your knowledge, then, what you do have, you certainly ought to have a great deal in your present position, how many of the operators and jobbers and dealers have either gone out of business for one reason or another during the past 2 years?

Mr. WILLETTS. That is a sizable order; I don't know.

Mr. SPRINGER. How many of them?

Mr. WILLETTS. I don't know of any jobber who has gone out of business.

Mr. SPRINGER. Any one?

Mr. WILLETTS. I don't know of any.

Mr. SPRINGER. Now, then, that has not been your experience?

Mr. WILLETTS. I don't think it has, that is correct.

Mr. SPRINGER. You would be willing to have revealed to you, would you, any jobber or any list of jobbers who have been forced out of business as a result of that, and you would be willing to have that entered in the record here?

Mr. WILLETTS. Yes, sir.

Mr. SPRINGER. Now, I call your attention to testimony that was in this record as of Wednesday, July 1, 1953, at page 123, for the record, in which I asked Mr. Hadlick about the general profit situation on companies generally. His answer, and I quote, was as follows:

Mr. Springer, I would agree with you that what I gave was only the surface. I don't have the staff to do the work. That should be worked out, I would say, completely on investment and sales.

I gave one example. I happened to find it quickly. The Socony-Vacuum tripled their sales but quadrupled their profits. Actually they probably plowed a great deal of this consumer profit that they made back into their plant facilities; undoubtedly they have.

They have also been the recipients of many certificates of rapid amortization of new plants and facilities.

Now would you comment on that part, about them having tripled their sales but quadrupled their profits. Is that a fact now and I am trying to find out if that is a truth.

Mr. WILLETTS. In what length of time are we mentioning?

Mr. SPRINGER. As a preliminary to that, this is what I asked him:

Early this morning in the first part of your testimony, Mr. Hadlick, you went into the question of profits of many of these companies in which you set up, for instance, in one that I have here.

In 1940 their profits were 33, and in 1948 they were 144. That is one way of setting it up, but I have always thought you set up your earnings as against your investment.

Now, that is the preliminary of what I asked him and that was his answer to that preliminary statement.

Mr. WILLETTS. Well, in recent years we just have not tripled our sales.

Mr. SPRINGER. What period of time have you not? Is this 5 years or 10 years or 12 years?

Mr. WILLETTS. I would say that is certainly so in 5 years and I don't think we have tripled our sales in 10 or 12 years. I really don't know.

Mr. SPRINGER. Now, have you quadrupled your profits?

Mr. WILLETTS. I testified this morning——

Mr. SPRINGER. I have your statement in front here; is there anything there to indicate you have quadrupled your profits?

Mr. WILLETTS. I testified from 1943 and it was in the thirties, and now 171, and that is 4 plus times.

Mr. SPRINGER. I think that is correct. You quadrupled your profits. Did you quadruple the profits on your investments?

Mr. WILLETTS. No, sir, we did not.

Mr. SPRINGER. Now, according to my figures, and I took your figures down this morning——

Mr. PRIEST. Will the gentleman yield? I have just one question.

Mr. Springer asked you if you quadrupled your profits on your investment and your answer was that you did not. On what, then, did you quadruple the profits?

Mr. WILLETTS. I don't know that I understand your question, sir.

Mr. PRIEST. His question was, Did you quadruple your profits on your investment? And your answer was "No." Then what was it on which you quadrupled your profits?

Mr. WILLETTS. I think Mr. Springer's question was to me that: Did you quadruple your profits? And I understood the question to mean in dollars, and I testified this morning in dollars that we did.

Mr. PRIEST. I didn't quite understand your question.

Mr. WILLETTS. Then Mr. Springer asked me about it in terms of investment, and I said, "No; that was from 1943 through 1952."

Mr. SPRINGER. For the record I will state again that the testimony was that in 1943 the earnings were $35,900,000 and in 1952 they were $171,100,000.

Now, when I added those all up and divided them, I found that there was an average over that 10-year period of 9.2 percent of profit.

Now, let me ask you this: Do you consider that to be a reasonable profit, Mr. Willetts, for a 10-year period?

Mr. WILLETTS. I think it is difficult to say what is a reasonable profit. I think on the basis of certain factors against which we might judge our profits—I am talking about all manufacturing industry—I testified here this morning, we were lower than all manufacturing industry. I used some specific statistics in respect of certain industries and we seem to be lower than most of them, and in fact all but one, I think, or maybe it was all of them.

I think another thing we might take into consideration in determining the adequacy of our profits is the basis on which our stock sells on the market. It is now about $35 a share.

Mr. SPRINGER. This morning it is 37⅜.

Mr. WILLETTS. I did not see that.

Mr. SPRINGER. I just looked at it a moment ago.

Mr. WILLETTS. The last one I saw was $35.

Mr. SPRINGER. On that you paid $2?

Mr. WILLETTS. We are paying at the rate of 50 cents a quarter; $2 per annum.

Mr. SPRINGER. I figured that out a moment ago and I believe that comes to 5.1 percent. Is that considered an average dividend? Did I make a mistake on that or is 5.1 right?

Mr. WILLETTS. I think the dividend on our investment—we are paying at the rate of $2. Some people I don't think would invest their money for that much.

Mr. SPRINGER. What is your par value?

Mr. WILLETTS. Our par value is $15. But here is a company that, as I say, it was $35 when I last looked at it, and it has a book value of more than $40 per share, and it has a replacement value, the way we estimate it, of over $70 a share, and if that was awfully good earnings, I wonder why people don't jump on to this thing and buy a lot of it.

Mr. SPRINGER. Let me ask you this: Is 5 percent a fair dividend return, do you believe?

Mr. WILLETTS. We have thought so because we needed money to reinvest in our business.

Mr. SPRINGER. Let me ask you this question——

Mr. WILLETTS. I don't know whether it is fair; our stockholders do not think so in some instances—some of them do not.

Mr. SPRINGER. Now, the money which you are earning in excess of that you are plowing back into the company?

Mr. WILLETTS. Yes, sir; we are.

Mr. SPRINGER. Now, I want to come back, if I can, to this 9.2-percent gain. Are you familiar with what the rate of earnings has been of the American Telephone & Telegraph Co., and what has been their dividend during the past 15 years?

Mr. WILLETTS. No; I am not. I know that they pay $9 a share, but I don't know about their rate of earnings.

Mr. SPRINGER. They are a public utility, are they not, and they are fixed more or less by the Federal Communications Commission, are they not?

Mr. WILLETTS. I understand that.

Mr. SPRINGER. You are a risk company, and not a protected company?

Mr. WILLETTS. That is right.

Mr. SPRINGER. They are protected in that they can get their rates raised if it is not enough?

Mr. WILLETTS. That is right.

Mr. SPRINGER. They have found 9 percent not to be excessive for a public-utility company; am I right on that?

Mr. WILLETTS. $9; yes.

Mr. SPRINGER. You figure then that earnings of 9 percent on your investment is likewise not excessive?

Mr. WILLETTS. I certainly do not think that earnings of 9 percent are excessive on our investment.

Mr. SPRINGER. Now, this morning the chairman went into a problem there with reference to this and I would like to quote it if I may. The question which he had, I quote:

> Do the increased prices truly reflect the operation of normal market factors of demand and supply or are they the result of other causes?

Now, my further question to that is: Do you have two methods of making a profit? As I understand them, first you may increase the prices and have a smaller market, that is one way; is that right?

Mr. WILLETTS. That is right.

Mr. SPRINGER. And the second is that you may have a larger sales at a lower price.

Mr. WILLETTS. That could be done.

Mr. SPRINGER. Now, I want to come to this recent raise, as I got your testimony this morning, and I want to be sure I understand it.

It is my understanding that you have made this raise at the good time of the season with the thought that at this time there would be an unusually heavy demand, at which time you believed you could get back some of this lost income that you have not been getting over previous periods of time; is that correct?

Mr. WILLETTS. We made this raise after having studied our demand and supply figures and after having studied our increase in expenses and thought that we should attempt to recoup some of those expenses at this time.

We had tried that earlier in the year, in February, and our attempt had failed.

Mr. SPRINGER. I will ask you this: Do you consider that in the normal market practice in business, that that was a good business practice?

Mr. WILLETTS. Yes, I think that under the situation we had, of an increase in expense that had occurred since 1950, and the law of supply and demand as we figured it out, the closeness of it, it was a good business practice to try to recover that amount of money for our stockholders.

Mr. SPRINGER. Now, I take it if you were in another business, we will say in the clothing business, that the probabilities are that your high market would be in the wintertime and that you would have your sale in the summer. What you are in effect doing is reversing that process; is that right? Whenever the demand is high, you raise the price; is that correct?

Mr. WILLETTS. Not as an ordinary thing.

Mr. SPRINGER. Not as an ordinary thing but you chose it this time and you believed that was good business practice; is that right?

Mr. WILLETTS. We chose it this time to raise our price, sir; in February, which was a low point in our gasoline demand, we were not able to do so, and the factors that we thought we should recover in our expense and in our cost of product hadn't changed by June and we figured in June we should attempt to recover some portion of our increase in expense.

Mr. SPRINGER. Now, these recent price increases that you put into operation, was it intended when you put these into operation that you were going to share any of the increase with the man who sells it down below?

Mr. WILLETTS. Yes; as I mentioned this morning. At the time we made our increase in price we studied the situation with respect to the jobber, and we haven't fully completed the study.

In the east coast we didn't advance our price to the jobber quite as much as we did the tank-wagon price, and I am talking gasoline, which in effect permitted him an opportunity to have more margin.

We are studying the situation in the central part of the United States right now and we have only partially completed it, but we have lowered our price on our premium grade of gasoline to our jobbers in most of the central area by a quarter of a cent a gallon and we are studying further what we should do with our price to jobbers in the central part of the United States.

I understand from a telephone communication that I received here Sunday night from our manager in the central part of the country that there is some move on the part of some of the companies out there to change their prices so as to give the jobber an opportunity for more margin. That will be a competitive situation, and I would assume, although we have taken no action as yet, that that is likely to change the prices to the jobber so that the jobber will be buying at a lower price, and thus afford him an opportunity for more margin.

Mr. SPRINGER. I want to come back to this because you gave me a long answer and I want to get this on the record.

When you put this into effect, did you share any of the margin or did you intend to share any of the margin as a result of these increases with the man who was selling it down at a filling station?

Mr. WILLETTS. We intended to share some portion of the margin with our jobbers.

Mr. SPRINGER. Now, let us get straight. I am talking about the oil jobber, or is this the gasoline-station operator?

Mr. WILLETTS. I am talking about the jobber who has a little independent business, and a bulk plant of his own and tank trucks, and he has dealers and he has service stations, and he goes out and sells the gasoline he buys from us in that channel of trade.

Mr. SPRINGER. All right. Now, let me ask you this: Do you have any trucks that take it out to the filling stations yourself?

Mr. WILLETTS. Yes, sir; we do, in some areas.

Mr. SPRINGER. Now, did you intend to share any of these increases with him?

Mr. WILLETTS. With the dealer, you mean?

Mr. SPRINGER. Yes.

Mr. WILLETTS. We raised our price to the dealer, and he sets his own retail price. Many of them did increase their price an amount in excess of the tank-wagon increase.

Mr. SPRINGER. But I am just wanting to get an honest answer from you, and I think that you are trying to, but you are not coming quite down to it.

As I understand it, and be sure that we are right on the record, that these increases were made for the purpose of reimbursing the company for whatever they felt that they were entitled to earn; is that right?

Mr. WILLETTS. Yes, sir.

Mr. SPRINGER. All right. Now, that was for the purpose of the company itself and not to share with the gasoline filling station operator; was it?

Mr. WILLETTS. Yes; but at the same time I testified here this morning that at the same time we did this, we intended to give our jobbers a lower price because we thought that his costs had also increased, and out of that increment that we had in our price for just expense, forget the product increased part of it; we were going to share some of that with him.

Mr. SPRINGER. Have you shared it with him?

Mr. WILLETTS. Yes; we have in many areas.

Mr. SPRINGER. I am glad to hear that, but can you explain how you are sharing it, and I will have to admit I have been listening carefully, but I haven't been able to get how you have shared it with him?

Mr. WILLETTS. Well, let us take a given city, for example, on the east coast. The man is in X town, a jobber of ours, and he buys our goods. We raised the tank-wagon price eight-tenths of a cent a gallon and that is the price if he elects to follow it at which he would sell the goods he buys from us.

But when we raised or changed his price, we didn't raise it as much as eight-tenths of a cent. We raised it a lesser amount.

Mr. SPRINGER. What was the jobber's price, eight-tenths of a cent, is that the margin? Is that right?

Mr. WILLETTS. No; the jobber margin varies, but in the central part of the country I believe that it would approximate 2¾ cents a gallon on gasoline, before the increase.

Mr. SPRINGER. How much is that?

Mr. WILLETTS. Two and three-quarter cents.

Mr. SPRINGER. How much did the tank-wagon price increase?

Mr. WILLETTS. The tank-wagon price in the eastern area went up eight-tenths of a cent a gallon.

Mr. SPRINGER. Now just a moment, you raised the jobber's price——

Mr. WILLETTS. Now, that is the margin. That is the general margin prevailing in the central part of the United States.

Mr. SPRINGER. That is the margin?

Mr. WILLETTS. Yes; that is the difference between his buying and selling price, on the assumption that we would sell at the posted tank-wagon prices in his area, whether he does or not, that is up to him. But if he did, before this price increase, he would have had a 2¾-cent margin selling our goods on house-brand gasoline.

Mr. SPRINGER. Two and three-quarter cents?

Mr. WILLETTS. Yes, sir.

Mr. SPRINGER. Now you raised it how much?

Mr. WILLETTS. In the central area we raised gasoline varying amounts from three-tenths to four-tenths, and in some States it was less and in some States more.

Mr. SPRINGER. Now, at the same time, did he raise the tank-wagon price that much?

Mr. WILLETTS. I can't answer you positively, but my statement would be I think he would; yes.

Mr. SPRINGER. Did you raise your tank-wagon price that much?

Mr. WILLETTS. In those areas in which we operate, we raised our tank-wagon prices that much.

Mr. SPRINGER. Then actually, as a matter of fact, the filling-station operator did not share any of that price increase, did he? He did not share in any of the profits as a result of that?

Mr. WILLETTS. The filling-station operator, I am not sure just how much he raised his price, because we are talking about two different levels in the distribution pattern of gasoline. One is the jobber, and one is the dealer. I was talking about the jobber, and now the gasoline dealer generally will pass on the increase in tank-wagon price to the customer unless, for some reason, a dealer would like to pick up more volume, and maybe then he wouldn't raise that much. But maybe he would figure he could compensate himself by an increase in volume and a lower gross profit per unit, but a higher volume. But, generally, they pass it on.

Mr. SPRINGER. Actually, Mr. Willetts, they all raised the same, did they not in the areas where you raised? Phillips raised, and Sinclair raised, and it was a general proposition.

Mr. WILLETTS. I would say that that would be about true.

Mr. SPRINGER. Actually as a matter of fact, to get down to it, nobody shared any of this with the filling station operator and it was not designed for that; is that not about the right answer?

Mr. WILLETTS. I can say that from our standpoint we raised our tank-wagon price by the amount I have mentioned, and therefore whether he shared in this or not would be dependent upon his action in passing this through. If he passed it through in an equal amount to the increase he did not get any more margin. But if he passed it through more than the amount of the tank-wagon increase, it would have the effect of increasing his margin.

Mr. SPRINGER. Now, as a broad proposition, for this committee here, have you made any survey or do you know of any oil company which has made a survey, to show the relation in the rise of home fuel oil for consumption purposes, and the same rise with reference to gas and the same rise with reference to coal, as to whether the percentage has been approximately the same in all three fuels?

Mr. WILLETTS. I don't think I have the figures here with me, but I don't think it would take us long to put such figures together.

Mr. SPRINGER. Would you insert them in the record?

Mr. WILLETTS. I would be glad to.

Mr. SPRINGER. Do you have any opinions at this time as to whether or not you think that there has been a greater or a lesser rise percentagewise in oil than there has been either in gas or in coal?

Mr. WILLETTS. I don't recall that.

(The figures to be inserted are as follows:)

Attached hereto you will find the following schedules which show not only the comparison between these fuels on a total use basis but also comparisons for specific uses.

Appendix II. Comparison of consumption of coal, fuel oils, and natural gas for all uses in the United States.

Appendix III. Fuels used by railroads and vessels in the United States.

Appendix IV. Industrial consumption of fuels in the United States.
Appendix V. Total energy consumption for all residual uses and for commercial space heating in the United States.

APPENDIX II

Comparison of consumptions of coal, fuel oils, and natural gas for all uses[1]

Year	Millions of therms				Percent of total		
	Coal	Oil	Natural gas	Total	Coal	Oil	Gas
1937	128,382	29,794	14,056	172,232	74.5	17.3	8.2
1938	104,618	27,766	12,993	145,377	72.0	19.1	8.9
1939	115,594	31,161	14,169	160,924	71.8	19.4	8.8
1940	131,269	34,215	15,349	180,833	72.6	18.9	8.5
1941	143,491	38,103	17,034	198,628	72.2	19.2	8.6
1942	159,513	40,516	18,762	218,791	72.9	18.5	8.6
1943	174,501	46,986	21,194	242,681	71.9	19.4	8.7
1944	175,603	51,703	22,854	250,160	70.2	20.7	9.1
1945	165,681	54,074	23,686	243,441	68.1	22.2	9.7
1946	147,228	52,290	24,094	223,612	65.8	23.4	10.8
1947	164,731	60,021	27,329	252,081	65.3	23.8	10.9
1948	160,077	64,701	31,288	256,066	62.5	25.3	12.2
1949	131,378	65,650	33,529	230,557	57.0	28.5	14.5
1950	137,086	77,336	39,816	254,238	53.9	30.4	15.7
1951	141,525	84,216	46,444	272,185	52.0	30.9	17.1
1952	122,269	87,665	51,075	261,009	46.8	33.6	19.6
Percent change:							
1952 against 1937–40, average	1.9	185.2	261.2	58.3			
1952 against 1947	−25.8	46.1	86.9	3.5			

[1] This is a summary of the 4 tables showing mineral-fuel consumption for residential uses and commercial space heating, for railroads, for vessels and for industrial purposes; and, in addition, the remaining fuel-oil uses for military and miscellaneous have been included. Duplications such as coal, coke, and briquets for residential use were omitted.

APPENDIX III

Part A—Fuels used by United States railroads

Year	Consumption (millions of therms)			Percent of total		
	Residual fuel oil	Bituminous coal	All other fuels [1]	Residual fuel oil	Bituminous coal	All other fuels [1]
1937	4,271	24,759	612	14.4	83.5	2.1
1938	3,537	20,724	633	14.2	83.2	2.6
1939	3,851	22,165	798	14.3	82.7	3.0
1940	4,061	23,868	978	14.0	82.6	3.4
1941	5,214	27,038	1,269	15.5	80.7	3.8
1942	6,288	32,016	1,681	15.7	80.1	4.2
1943	7,336	35,580	2,226	16.3	78.8	4.9
1944	7,179	35,711	2,849	15.7	78.1	6.2
1945	7,074	33,877	3,892	15.8	75.5	8.7
1946	6,288	29,606	4,583	15.5	73.2	11.3
1947	6,131	29,554	6,130	14.7	70.7	14.6
1948	5,633	26,148	8,706	13.9	64.6	21.5
1949	3,982	18,733	11,593	11.6	54.6	33.8
1950	3,773	16,768	15,131	10.6	47.0	42.4
1951	3,450	14,620	18,306	9.5	40.2	50.3
1952	2,511	10,601	21,596	7.2	30.6	62.2
Percent Change:						
1952 against 1937–40 average	−36.1	−53.7	2,760.4			
1952 against 1947	−59.0	−64.1	252.3			

[1] Diesel fuel oil for railroads has been adjusted to reflect its greater efficiency. In 1952 diesel fuel makes up 98 percent of "All other" for railroads and 91 percent for vessels.

Source: Based on Interstate Commerce Commission reports. Percentages for the years 1946 through 1951 appear in Report of Committee on Bunker C Fuel Oil, NPC, 1952.

Part B—Fuels used by vessels (ships' bunker fuel, total United States)

Year	Consumption (millions of therms)			Percent of total		
	Residual fuel oil	Bituminous coal	All other fuels [1]	Residual fuel oil	Bituminous coal	All other fuels [1]
1937	4,506	472	760	78.5	8.2	13.3
1938	3,851	367	760	77.3	7.4	15.3
1939	4,113	393	812	77.3	7.4	15.3
1940	3,851	367	786	77.0	7.3	15.7
1941	3,563	419	629	77.3	9.1	13.6
1942	2,384	419	498	72.2	12.7	15.1
1943	3,904	419	655	78.4	8.4	13.2
1944	5,790	419	786	82.8	6.0	11.2
1945	6,288	472	838	82.8	6.2	11.0
1946	5,554	367	707	83.8	5.5	10.7
1947	6,393	445	828	83.3	5.8	10.9
1948	6,000	288	865	83.9	4.0	12.1
1949	5,618	236	760	84.9	3.6	11.5
1950	5,843	183	750	86.2	2.7	11.1
1951	6,847	238	891	85.8	3.0	11.2
1952	6,081	183	943	85.6	2.3	12.1
Percent change:						
1952 against 1937–40 average	63.8	−54.3	21.1			
1952 against 1947	4.5	−58.9	12.5			

[1] Diesel fuel oil for railroads has been adjusted to reflect its greater efficiency. In 1952 diesel fuel makes up 98 percent of "All other" for railroads and 91 percent for vessels.

Source: Based on Interstate Commerce Commission reports. Percentages for the years 1946 through 1951 appear in Report of Committee on Bunker C Fuel Oil, NPC, 1952.

APPENDIX IV

United States industrial consumption of fuels [1]

Year	Millions of therms			Percent of total		
	Coal	Oil	Gas	Coal	Oil	Gas
1937	68,725	8,308	9,365	79.5	9.6	10.8
1938	53,128	7,385	8,289	77.2	10.7	12.1
1939	60,700	8,382	9,064	77.7	10.7	11.6
1940	70,420	9,007	9,738	79.0	10.1	10.9
1941	75,943	10,477	11,315	77.7	10.7	11.6
1942	84,270	10,117	11,094	79.2	9.5	11.3
1943	90,826	10,552	14,054	78.7	9.1	12.2
1944	90,590	11,457	15,226	77.2	9.8	13.0
1945	84,652	11,915	15,511	75.6	10.6	13.8
1946	75,410	13,489	15,233	72.4	13.0	14.6
1947	94,569	15,545	16,583	74.4	12.4	13.2
1948	93,695	15,448	18,654	73.3	12.1	14.6
1949	75,254	16,441	19,611	67.6	14.8	17.6
1950	83,062	19,471	23,255	66.0	15.5	18.5
1951	92,022	19,739	26,685	66.4	14.3	19.3
1952	79,447	19,517	29,396	61.9	15.2	22.9
Percent change:						
1952 against 1937–40 average	25.6	136.0	222.5			
1952 against 1947	−15.1	25.6	77.3			

[1] This includes smelters, mines, and manufacturers, oil companies and gas and electric utilities, except that there is excluded the fuels used by gas and electric utilities for the production of electricity and gas sold by them for residential use and commercial space heating.
See separate tables for railroads and vessels, not included herein.

Source: U. S. Bureau of Mines and American Gas Association.

APPENDIX V

Total energy consumption [1] for all residential uses and for commercial space heating

[In millions of therms (100,000 B. t. u.)]

Year	Bituminous coal and lignite	Pennsylvania anthracite	Coke	Briquets and package fuel	Fuel oil all grades	Natural gas	Liquefied petroleum gas	Petroleum coke	Total energy from mineral fuel	Hydro	Wood including mill waste	Grand total energy
1935	24,669.7	10,818.6	2,450.8	207.7	6,591.3	3,874.2	20.4	242.2	48,874.9	208.7	12,576.0	61,659.6
1936	24,941.4	11,058.7	2,605.5	278.5	8,295.4	4,385.0	28.7	226.5	51,819.7	208.8	12,576.0	64,604.5
1937	23,995.4	10,429.7	2,108.1	258.3	9,627.7	4,691.1	39.0	208.4	51,358.7	244.5	12,576.0	64,179.2
1938	20,920.4	9,478.8	1,872.8	236.7	9,899.6	4,704.2	55.2	202.1	47,369.8	278.1	12,576.0	60,223.9
1939	21,954.0	10,382.0	1,985.9	252.3	11,218.6	5,105.2	83.6	256.9	51,238.5	267.4	12,576.0	64,081.9
1940	26,479.8	10,134.3	2,140.1	302.0	13,132.1	5,611.1	128.0	254.2	58,181.6	288.1	10,165.6	68,635.3
1941	29,403.7	10,687.1	1,737.6	351.7	13,664.6	5,718.9	210.8	196.1	61,970.5	289.4	10,165.6	72,425.5
1942	31,407.5	11,490.8	1,576.1	436.3	13,693.1	6,768.3	286.1	125.9	65,694.1	349.5	10,165.6	76,209.2
1943	36,311.7	11,364.0	1,270.4	507.2	12,821.9	7,139.9	324.1	126.5	69,865.7	364.7	10,165.6	80,396.0
1944	37,136.2	11,747.2	1,746.7	569.9	12,949.5	7,628.3	425.6	200.6	72,404.0	383.1	10,165.6	82,952.7
1945	36,604.8	10,075.4	1,761.8	643.3	14,071.7	8,175.3	532.1	222.0	72,086.4	464.2	10,165.6	82,716.2
1946	31,442.6	10,402.1	1,325.2	697.4	16,477.6	8,860.7	757.7	217.5	70,180.8	515.4	10,165.6	80,861.8
1947	32,051.5	9,111.7	1,082.6	714.4	20,251.5	10,746.4	1,154.4	242.8	75,355.3	520.3	10,165.6	86,041.2
1948	30,295.0	9,650.7	939.1	707.9	22,303.7	12,634.1	1,488.4	281.3	78,300.2	570.3	10,165.6	89,036.1
1949	29,755.6	7,399.5	755.6	520.5	21,696.6	13,917.9	1,640.4	347.6	76,033.7	689.3	10,139.0	86,862.0
1950	29,276.9	7,796.0	665.6	627.9	25,446.1	16,561.3	2,013.7	361.7	82,749.2	740.3	10,215.7	93,705.2
1951	27,273.7	7,371.5	574.3	630.2	26,917.2	19,759.2	2,153.5	347.0	85,026.6	785.1	9,774.1	95,585.8
1952	25,176.4	6,861.4	525.0	630.0	27,630.0	21,679.0	2,308.6	330.0	85,140.4	830.0	9,300.0	95,270.4
Percent change:												
1952 against 1937–40 average	7.9	−32.1	−74.1	140.2	151.9	331.2	2,921.7	43.2	63.6	208.0	−22.3	48.2
1952 against 1947	−21.5	−24.7	−51.5	−21.8	36.4	101.7	100.0	35.9	13.0	59.5	−8.5	10.7

PERCENT OF TOTAL MINERAL FUELS

1935	50.5	22.1	5.0	0.4	13.5	7.9	0.1	0.5	100.0			
1936	48.1	21.4	5.0	.5	16.0	8.5	.1	.4	100.0			
1937	46.7	20.3	4.1	.5	18.8	9.1	.1	.4	100.0			
1938	44.2	20.0	4.0	.5	20.9	9.9	.1	.4	100.0			
1939	42.8	20.2	3.9	.5	21.9	10.0	.2	.5	100.0			
1940	45.5	17.4	3.7	.5	22.6	9.7	.2	.4	100.0			
1941	47.5	17.2	2.8	.6	22.1	9.2	.3	.3	100.0			
1942	47.8	17.4	2.4	.7	20.8	10.3	.4	.2	100.0			
1943	52.0	16.3	1.8	.7	18.3	10.2	.5	.2	100.0			
1944	51.3	16.2	2.4	.8	17.9	10.5	.6	.3	100.0			
1945	50.8	14.0	2.5	.9	19.5	11.3	.7	.3	100.0			
1946	44.8	14.8	1.9	1.0	23.5	12.6	1.1	.3	100.0			
1947	42.5	12.1	1.4	1.0	26.9	14.3	1.5	.3	100.0			
1948	38.7	12.3	1.2	.9	28.5	16.1	1.9	.4	100.0			
1949	39.1	9.7	1.0	.7	28.5	18.3	2.2	.5	100.0			
1950	35.4	9.4	.8	.8	30.8	20.0	2.4	.4	100.0			
1951	32.1	8.7	.7	.7	31.7	23.2	2.5	.4	100.0			
1952	29.6	8.0	.6	.7	32.5	25.5	2.7	.4	100.0			

[1] Includes energy consumed in the production of electricity and manufactured gas used for residential, etc.

Source: U. S. Bureau of Mines Circular 7657 for years through 1951; 1952 based on other Bureau of Mines and Department of Commerce reports.

Energy conversion factors

Type of fuel:		*Thousand B. t. u.'s*
Anthracite	per ton	25,400
Bituminous coal, etc	do	26,200
Briquets, etc	do	23,000
Coke	do	26,000
Heating oil:		
Distillates 1–4	per barrel	5,825
Residuals 5–6	do	6,322
Range oil	do	5,691

Type of fuel—Continued		*Thousand B. t. u.'s*
Fuel oil (gas and electric)	per barrel	6,248
Petroleum, crude and products	do	5,800
Electric energy	per kilowatt hour	3,412
Natural gas:		
Wet	per cubic foot	1,075
Dry	do	1,050
Petroleum coke	per ton	30,120
Liquefied petroleum gas	per gallon	95

NOTE.—All petroleum and products in 42-gallon barrels.

Mr. SPRINGER. Now, have you made any survey in your company to determine whether or not the price of fuel oil has risen any more than the overall cost of living according to the price indexes as set up by the Department of Labor?

Mr. WILLETTS. Taking this out of my recollection, and I would think when you say fuel oil you mean distillate fuel oil, I think the price of distillate fuel oil has risen percentagewise in the period we are talking about, since July of 1950, slightly more than the cost of living index.

Mr. SPRINGER. Is that 1 percent or 2 percent or what?

Mr. WILLETTS. I haven't got the figures but I would think it would be a little more, and I can give you the figures.

Mr. SPRINGER. Now, last evening, my wife and I computed since we came here in January 1951, which has been a little over 2½ years ago, and the increase in the price of distillate oil fuel in the Washington area, at least my fellow who deliveries it at my home, has been almost exactly the same as the rise in the cost of living.

Now, that is just an observation which I passed on because we took the figures and it was very easy to compute our records and see what it has been.

Now, I do not know whether your last raises are reflected in my figures or not, but we have not turned the furnace on since the first part of May. The point I think is important, and I have not passed any opinion thus far in this question, is whether or not it's based on good business practices. This committee is chiefly concerned with whether or not your raises have been in line with good business practices, and whether or not it has exceeded the cost of living generally.

Now, if your prices are in line with the pattern of increases generally otherwise, I do not see how anyone can find price increases unjustified, providing that you have used good business practices in doing it. But, of course, if you have chosen this point to take advantage of a situation wherein you might get an increase outside of that, I think this committee would be, or at least I would be, critical of it.

I would like to develop one thing further, which I do not know whether I am clear on or not, but I have watched oil companies, I think, the same as our chairman has and Mr. Heselton has.

It is not any secret, is it, that actually when oil companies make raises and lowerings in the price of gasoline, that all companies do likewise? I am talking about the retail on-the-corner gasoline station. Would you answer that question first? That is not any secret among oil companies?

Mr. WILLETTS. I don't quite understand you.

Mr. SPRINGER. It is not any secret among you that you lower and raise your prices according to whichever company is strongest in that particular area?

Mr. WILLETTS. No; it becomes known rapidly and it becomes known through the dealers and becomes known through our sales force, and it appears in trade publications, and so it becomes readily known.

Mr. SPRINGER. Is it not an actual fact that several days before the price increase goes into effect, you actually publish it in the newspaper, so that every single operator will know that a price increase is to be expected at the tank wagon on the day when you set forth that you are going to make the raise?

Mr. WILLETTS. We generally release to the newspapers, sometimes in a broad area and sometimes through our local operation, in the afternoon of the day before we are going to make the price increase.

Mr. SPRINGER. All right, now there are some peculiarities, it appears to me, in the oil industry that you will not have in other businesses. I am going to see if I am right on that. If you have a clothing store or a department store or a grocery store, you will sell many items, do you not, and you may expect to take losses on some with the idea of getting people in the store, and you may make an enormous profit on some other things.

Mr. WILLETTS. I would assume so.

Mr. SPRINGER. The price of coats and suits may be up, and the price of summer clothes may be down. Now, as I understand it, in the oil business, that isn't true, and you are selling a standard product which is practically the same on every single filling station in the United States. Am I right?

Mr. WILLETTS. Well, I would say this one thing, that there are brands of gasoline that are quite similar in quality; but I think if you would ask 10 oil companies, they would tell you theirs was the best. Some of them vary in certain specifications from others. But, in general, they approach each other.

Mr. SPRINGER. Actually, your octane content is practically the same in all of the major oil companies, is it not?

Mr. WILLETTS. No, sir. Some are higher than others.

Mr. SPRINGER. Well, on efficiency, one about equals the other; is that not about true?

Mr. WILLETTS. From an octane standpoint they sell higher ones or lower ones, but it varies quite a little and the range is quite correct.

Mr. SPRINGER. But your gasolines are pretty well standardized; are they not?

Mr. WILLETTS. Pretty much. The quality of one is pretty close to the quality of the other, and that is bound to be so because we watch what the other fellow does and they watch what we do.

Mr. SPRINGER. The cost of refining that product is approximately the same whether in Socony, or Phillips, or Sinclair, or any other company; is it not?

Mr. WILLETTS. I cannot testify to that. The cost of refining it in our company is one cost. Maybe someone can do it cheaper than we can, and perhaps some will do it at more cost.

Mr. SPRINGER. You are in a very competitive industry.

Mr. WILLETTS. Yes, sir.

Mr. SPRINGER. About as highly competitive as I know, and your profit is 9.2. Actually, the profit as testified here yesterday by Phillips was 8.16. That is less than 1 percent of actual profits difference in two large companies, and you are operating a one-and-a-half-billion-dollar company. I do not know what the size of Phillips is. You cannot come much closer to that, can you—1 percent of profit?

Mr. WILLETTS. But 1 percent of our profit we made according to your figure 8.2 percent over the last 10 years. One percent of 9 percent is over 10 percent, and that is a lot of money.

Mr. SPRINGER. You mean over a period of 10 years?

Mr. WILLETTS. Yes, sir.

Mr. SPRINGER. Perhaps he made more money than you did in some years. The point I am trying to make—and I want to be sure I understand it correctly—is that in the gasoline business you are in a pretty standardized kind of a thing. That accounts for the uniformity of the actual going up and down at the gasoline station itself; is that not right?

Mr. WILLETTS. I think there is a great deal in what you say.

Mr. SPRINGER. If you are selling on the corner of Capital and Independence Avenue for 27 cents and a man across the river is selling exactly the same product, he cannot sell it for 25 cents?

Mr. WILLETTS. He can sell for 25, but the fellow selling at 27 will soon be down to 25.

Mr. SPRINGER. That is right. So, as a matter of fact, is there considered anything unethical in this immediate raising and lowering of prices in a standard product where it is in a highly competitive business?

Mr. WILLETTS. I do not think that there is anything unethical in it.

Mr. SPRINGER. That is the point I wanted to make. It is different, I think, if you actually got together and fixed the price; and then I think there is a law and a penalty for that. But actually, it going up and down, I think, is reflected probably only in the cost of the product.

Mr. WILLETTS. I think it is reflected in the cost.

Mr. SPRINGER. Now I have one or two other questions I would like to ask.

Are you familiar with the recent survey that was made by the Chase National Bank of the earnings of the major oil companies?

Mr. WILLETTS. I am familiar that it has been issued, but I have not studied it. I got it just before I left.

Mr. SPRINGER. Do you know whether or not this last year the major oil companies' earnings—and I am talking about the first quarter of 1953—went up or down?

Mr. WILLETTS. It is my understanding that the earnings went down slightly.

Mr. SPRINGER. Do you know how much that was?

Mr. WILLETTS. I cannot say.

Mr. SPRINGER. Well, for your information, it was about 3 percent. I figured it out.

Mr. WILLETTS. I would say it was that.

Mr. SPRINGER. Multiplied by 4 quarters, if it continued the same, it would be a decrease of 12 percent. Now, I presume, however, that your first quarter is your slow one, and your second quarter is a medium, and your third quarter is the big one.

Mr. WILLETTS. Our first quarter is generally a big quarter. We have a very high consumption in the first quarter and in the last quarter.

Mr. SPRINGER. In January and February and March?

Mr. WILLETTS. Yes; because we have the effect of our heating and fuel oils in that quarter.

Mr. SPRINGER. This was a light winter.

Mr. WILLETTS. We do not have quite the effect that we have had in some because the weather was so much warmer.

Mr. SPRINGER. At the time that these increases were put into operation did you take into consideration that there were decreases in earnings in the first quarter of 1953?

Mr. WILLETTS. No; we did not take them into consideration in our figures, because our earnings did not decrease. We had an increase in earnings in 1952 and our earnings in the first quarter were up just a bit, as I recall the figure, ever the first quarter of 1952.

Mr. SPRINGER. I have one other question, and then I will be finished. Does Socony do any drilling operations?

Mr. WILLETTS. Yes, sir; we do.

Mr. SPRINGER. How far ahead do you plan your drilling operations?

Mr. WILLETTS. Well, the program is being laid out about this time in the operations of doing the drilling. They will put together their program for the year ahead and they will come in to our board of directors in the early fall of the year and discuss the problem with us. By the close of the year we know how much money we have available so that they can absolutely set their program for the year ahead. They also know that they have a number of fields, we will say, under development, and that we have a reserve number of locations to be drilled. They will not all be in the program for that 1 year and they may be 4 or 5 or 6 or 7 years ahead on the development wells to be drilled.

Mr. SPRINGER. Now, will you plan to set aside any money in the year 1953 for the year 1956 or 1957?

Mr. WILLETTS. I do not think that we will set any money that far ahead because our cash position is such that we will not have it to set ahead. We are going to spend the largest amount of money this year that, as I recall, we have ever contemplated spending. The rate of expenditure is very high, and a very high percentage of it is going into both production and the betterment of our refining facilities.

Mr. SPRINGER. I believe that is all, Mr. Chairman.

Mr. WILLETTS. May I say one thing, Mr. Springer, if you do not object? You asked me about the increase in the cost of living as related to petroleum products. While I do not have the figures here, I would like to send you that because I think that you will find that petroleum products have not increased as much as the cost of living.

Mr. SPRINGER. Would you send me a copy? Also, send a copy to the clerk for insertion in the record.

Mr. WILLETTS. Yes, I will do that. I believe it will show that. I will see that it is figured out and sent in to you for the record.

(The information referred to follows:)

Attached hereto as appendix VI you will find a comparison between petroleum product prices along the eastern seaboard and the cost of living. It is interesting to note that since 1935–39, the cost-of-living index increased 91.4 percent while the composite consumer price of principal petroleum products rose only 72.3 percent. Appendix VI also shows separate figures for gasoline and No. 2 fuel oil. Gasoline increased 61.6 percent and No. 2 fuel oil rose 99.4 percent. In contrast, the food group in the cost-of-living index rose 129.8 percent and the apparel group increased 100.2 percent.

You may also be interested in two additional tables which are attached. The first, appendix VII, contains a comparison between eastern seaboard wholesale prices of No. 6 fuel oil and bituminous coal for the years 1935 through July 16, 1953. The prices are related on a B. t. u. basis. Since 1949, it should be noted, the price of No. 6 fuel oil has at all times been relatively lower than the price of bituminous coal. As of July 16, 1953, after the most recent price increase, the price of residual fuel was, relatively speaking, 10 percent lower than bituminous coal. The second table, appendix VIII, contains a comparison between eastern seaboard retail prices of home-heating oil (No. 2 heating oil) and anthracite coal. This comparison is also made on a B. t. u. basis. Since 1950 home-heating oil has been slightly cheaper than anthracite coal and in July of 1953, after the most recent price increase, was 1 percent cheaper than anthracite coal, relatively speaking.

APPENDIX VI

Petroleum products prices and the cost of living, eastern United States

[Petroleum prices in cents per gallon]

	Consumer price index, 1935–39=100			Composite consumer price, principal petroleum products [1]	Price, cents per gallon	
	All items	Food	Apparel		Gasoline, retail service station	No. 2 fuel oil, tank wagon
1935–39 average	100.0	100.0	100.0	10.39	[2] 18.03	6.59
July 1, 1953 [3]	191.4	229.8	200.2	17.90	[4] 29.14	13.14
Percent increase	19.4	129.8	100.2	72.3	61.6	99.4

[1] Average of gasoline, burning oils, heating oils and heavy fuel prices in proportion to the 1947 domestic demand in eastern United States for gasoline, kerosene, distillates, and heavy fuel oils. Proportions were not changed yearly because Consumer Price Index is based on fixed quantities. Gasoline prices are averages from data published by the American Petroleum Institute for regular gasoline. The prices of fuels for home heating at retail are average tank wagon prices to consumers. For heating oils, beginning 1937, based on statistics collected by the U. S. Bureau of Labor Statistics. For 1935 and 1936, prices are from Fuel Oil Journal (8–38), as unavailable from Government reports. For burning oils, beginning 1939, based on statistics collected by U. S. Bureau of Labor Statistics. For 1935–38, based on eastern United States posted prices. Prices for heavy fuels are average prices to large industrial consumers in major cities. Prices are from Platt's Oilgram and Handbook.

[2] Includes gasoline taxes of 5.16 cents per gallon.

[3] Includes changes through July 16, 1953, for burning and heating oils. The Consumer Price Indexes are for June 1953, on a 1935–39 base.

[4] Includes gasoline taxes of 7.21 cents per gallon.

APPENDIX VII

Eastern Seaboard wholesale prices of No. 6 fuel oil and bituminous coal (run of the mine)

Year	No. 6 fuel oil (per gallon) [1]	Bituminous coal (per ton) [2]	Ratio of prices per B. t. u., residual to coal [3]
	Cents		
1935	2.54	$5.27	0.84
1936	2.58	5.29	.85
1937	3.03	5.38	.99
1938	2.47	5.34	.81
1939	2.48	5.34	.81
1935–39 average	2.62	5.32	.86
1940	3.08	5.35	1.01
1941	3.11	5.58	.98
1942	[4] 3.67	5.84	1.10
1943	[4] 3.77	6.13	1.08
1944	[4] 3.89	6.45	1.06
1945	[4] 3.96	6.62	1.05
1946	4.22	7.26	1.02
1947	5.33	8.35	1.12
1948	7.17	9.55	1.31
1949	4.62	10.08	.80
1950	5.01	9.90	.89
1951	5.60	10.16	.96
1952	5.56	10.31	.94
1953 (July 16)	5.46	[5] 10.66	.90

[1] Yearly average of refinery-terminal prices of No. 6 fuel oil (not barge) as reported in Platt's Oil Price Handbook for the 3 cities: Boston, New York Harbor, and Philadelphia.

[2] Average prices for run-of-mine bituminous coal per net ton in 3 eastern seaboard cities—Boston, New York, and Baltimore—as reported to U. S. Bureau of Labor Statistics. The prices for New York are monthly averages of the weekly prices reported for 3 specifications by 2 large coal distributors. 2 of the series are for Pennsylvania low-volatile coal and 1 is for Pennsylvania high-volatile coal. The Baltimore prices and the Boston prices are the averages of the weekly prices reported for each month by 1 large coal distributor in each of these cities. Where changes have been made in reporting method, the series has been adjusted slightly to make the series uniform.

[3] The conversion factors used were 26,200,000 B. t. u.'s per ton for coal and 149,700 B. t. u.'s per gallon for No. 6 fuel oil. In industrial plants, residual efficiency is often considered 7 percent better than bituminous coal, and in such cases residual would support a somewhat higher price ratio than one based solely on B. t. u content.

[4] For the purpose of this comparison no deductions have been made for revenues collected and paid into Defense Supplies Corporation.

[5] Estimated.

APPENDIX VIII

Retail price trends of home heating oil versus coal, east coast

Year	No. 2 fuel oil (per gallon)[1]	Anthracite coal (per ton)[2]	Ratio of prices per effective B. t. u., fuel oil to coal [3]
	Cents		
1935	6.44	$11.14	1.01
1936	6.63	11.61	1.00
1937	7.09	11.19	1.11
1938	6.55	11.11	1.03
1939	6.25	10.84	1.01
1935-39 average	6.59	11.18	1.03
1940	6.25	11.35	.96
1941	7.02	11.97	1.03
1942	7.46	12.47	1.05
1943	7.69	13.20	1.02
1944	7.75	13.94	.97
1945	7.76	14.43	.94
1946	8.40	15.97	.92
1947	9.76	17.11	1.00
1948	12.51	19.10	1.15
1949	11.48	20.13	1.00
1950	11.73	21.07	.97
1951	12.50	23.16	.94
1952	12.94	23.06	.98
1953 (July)	13.14	[4] 23.30	.99

[1] Prices for 1937 through 1953 are U. S. Bureau of Labor Statistics city prices weighted according to consumption. July 1953 is an extension of the BLS series reflecting all price changes through July 10. For 1935 and 1936 prices were taken from Fuel Oil Journal, being unavailable in Government reports.

[2] This is the BLS weighted average retail price for anthracite coal. It is considered comparable to the east coast fuel-oil price because most of the anthracite consumption is on the east coast. The latest available retail price was $24.69 in December 1952; therefore July 1953 was necessarily estimated from the wholesale price trend.

[3] The conversion factors used were 25,400,000 B. t. u.'s per ton for anthracite coal and 138,700 B. t. u.'s per gallon for No. 2 fuel oil. The efficiencies are considered to be 65 percent for anthracite and 68 percent for No. 2 fuel oil and the actual B. t. u.'s were adjusted by these efficiencies to get effective B. t. u.'s.

[4] Estimated.

Mr. SPRINGER. That is all, Mr. Chairman.

The CHAIRMAN. I would like to give an opportunity to some of the members who have not had an opportunity as yet. I have a considerable amount of questioning to do as a result of a study that has been made, but I relinquished it this morning in order that all members of the committee might have an opportunity to ask questions.

Now, Mr. Heselton, if you do not mind, I will give a chance first to those who were here this morning and have not had a chance to question the witness as yet.

If there are no questions, we will proceed.

Mr. HESELTON. There were a few questions that I forgot to ask, Mr. Chairman. Mr. Springer has brought it out generally and I would like to have the record show some further facts.

Do you have the exact figures for your earnings in the first quarter of 1953?

Mr. WILLETTS. No, I did not bring them with me.

Mr. HESELTON. All right.

Mr. WILLETTS. We do not have the earnings specifically. We do not have it in dollars, but they are pretty close.

Last year we had accumulated into our figures an amount of money for taxes that we later on in the year found out we should not have accumulated, which was corrected. If you take that into consideration, our first-quarter earnings were approximately even with last year.

Mr. HESELTON. Do you have figures available?

Mr. WILLETTS. We have estimated figures available; Mr. Jenkins announced them at the stockholders' meeting. The earnings were a little over $40 million, as I recall.

Mr. HESELTON. That he had available for the first half of the year?

Mr. WILLETTS. They are not available.

Mr. HESELTON. Would you submit whatever estimate you have on the first quarter for the record?

Mr. WILLETTS. I will be glad to do that.

(The information follows:)

Mr. B. Brewster Jennings, president of Socony-Vacuum, reported at the annual meeting of shareholders held on April 30, 1952, that the first quarter of 1953 net earnings of the company were an estimated $44 million. Comparable earnings for the first 3 months of 1952 were $41 million. It was explained, however, that in arriving at the $41 million figure a year ago, the company had deducted $3 million for accrual of excess-profits taxes, which it was found later did not have to be paid. Taking this excess-profits-tax factor into account, therefore, earnings for the first quarter of 1953 were just about the same as for the comparable period of 1952.

Mr. HESELTON. Now, in view of the testimony that we have had thus far, this may be modified somewhat by the testimony that has not been given thus far, but I want to make a suggestion. I think the arguments and reasons that have been advanced thus far in an effort to justify these increases in the price of gasoline and fuel oil have been completely unconvincing.

In the face of the highest production record, very good working inventories, recordbreaking earnings, very high drilling, and discoveries, aparently the industry is determined to force the cost of these products up between five and seven hundred million dollars annually.

The protests that have come in that they do not like to do that have a very hollow ring to me. While they give lipservice to this administration's efforts to stop the decrease in purchasing power of the dollar and balance the budget and even deficits and eventually reduce taxes, they still insist that these increases are justified.

They admit such results on the part of the administration would directly benefit their companies and their stockholders, but in my opinion they stubbornly resist in making their raises stick. If they keep this attitude up (and I want to say this after having considered it very carefully), they may well bring upon themselves a Federal commission to regulate them, but more important to protect the American consumers and the national security.

You, Mr. Chairman, have pointed out that this may have a very adverse effect on the administration's program overseas, and obviously it will have a very savage effect on the tremendous bill that the taxpayers of this country are paying to try to maintain adequate national defense.

I have introduced a bill which will do that, and I certainly should urge the enactment unless there is a change of attitude very soon.

That is all.

Mr. SPRINGER. Could I ask one more question, just in view of Mr. Heselton's statement?

The CHAIRMAN. All right.

Mr. SPRINGER. Mr. Willetts, I notice in this also, this article from the New York Times of July 6, that Representative John Heselton,

of Massachusetts, committee member, presented legislation for Federal control of all phases of the oil and natural gas industry from production to sales. Mr. Heselton's bill would create a 11-man Commission to be appointed by the President. The Commission would have power to impose any regulations it deemed necessary for the protection of the national security and economy.

Do you believe that such a bill, if enacted, would be beneficial to the consumers and to the industry generally?

Mr. WILLETTS. I have not read the bill, but I will say very frankly, Mr. Springer, that I do not think so. I do not think that we should increase the already high cost of Government, and I do not think that the petroleum industry can live half free and half controlled or midway between freedom of action and full control. I think that the best results will be produced by this industry through freedom of action. I think that the industry has produced good results over a period of time in taking care of current needs and preparing for the future needs of customers in a place, at a time, and in the quality of product that they want. So my answer is "No."

Mr. SPRINGER. Would you name the date at which Federal OPS controls went off your industry?

Mr. WILLETTS. It was some time in February, but I do not recall exactly.

Mr. SPRINGER. Of 1953?

Mr. WILLETTS. Of this year.

Mr. SPRINGER. If there had been no controls, would some of these increases that have been made in the last 6 months have been put into effect during the last 5- or 6-year periods that you have had controls on?

Mr. WILLETTS. We have not made a price increase on the finished product since July of 1950, and included since 1947. I believe that had there been no controls, that these increases would have taken place in smaller increments under the same conditions.

Mr. SPRINGER. I want to be sure I get the contention the oil industry has made, as set out by you, and that is that these increases were normal increases that should have been put into effect over a long period of time.

Mr. WILLETTS. That is my feeling.

Mr. SPRINGER. When controls were on, there was no opportunity to do that.

Mr. WILLETTS. That is correct.

Mr. SPRINGER. That is your position, and that is correct.

Mr. WILLETTS. That is the way we feel, as a company.

Mr. SPRINGER. Let me ask you this one further question. Do you believe that a bill such as Mr. Heselton has mentioned here would be beneficial in protecting the public over a long period of time?

Mr. WILLETTS. No, sir, I think the public will be protected over a long period of time. I think a great deal of the things that we are doing today are getting ready for the protection of the public over a long period of time in supplying the public with its needs. I think on the basis of the record of the oil industry that it speaks for itself, and a continuation of it in my judgment would protect the public.

Mr. SPRINGER. Do you believe that the industry is sufficiently competitive and the market is sufficiently competitive as between companies to protect the public?

Mr. WILLETTS. Yes, sir.

Mr. SPRINGER. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Willetts, let us go back for a moment to the Middle East situation. What, if any, effect in your opinion will the so-called foreign voluntary agreement have with respect to importation of oil into this country?

Mr. WILLETTS. That voluntary agreement I know very little about, and therefore I should not talk about it. It is my understanding that it is an advisory group to help out on the shortage of aviation gasoline. I believe there are some legal questions in connection with its other action, at least as far as my company is concerned, and they are unresolved in the minds of our attorneys. I do not think I am really in a position to speak very well on it.

The CHAIRMAN. Do you know of any agreement or understanding between the companies that would fix the amount of oil that would be exported to any particular countries and by what companies?

Mr. WILLETTS. No, I do not, sir.

The CHAIRMAN. Would it be possible under the voluntary agreement to enter into arrangements of that kind?

Mr. WILLETTS. That is a question I think has not been resolved, and I cannot answer your question, sir.

The CHAIRMAN. As I understood it this morning, you were not able to express an opinion as to whether there would be an increase of imports into this country from the Near East, but thought that it might if the price differential continued.

Mr. WILLETTS. No; I think my expression was, or at least intended, to convey that there were certain elements present that could lead to imports, but whether or not they will, I am not in a position to say. I do not know the Near East situation. It is not a part of my portfolio and my company, and I hear of it only generally.

As I mentioned, then, there are a great many questions in connection with it that have not been settled in our own minds. I do not think I am in a position to say to you on the Near East what effect it would have, if any.

The CHAIRMAN. What holdings does your company have in foreign fields?

Mr. WILLETTS. Well, in the Near East.

The CHAIRMAN. That is one of them. You have some in the East Indies, too.

Mr. WILLETTS. I was just going to start and try to remember them and travel around. In the Near East we are a part owner, 10 percent, of the Arabian-American Oil Co. We are a part owner in the Irak Petroleum Co. We are a part owner of the Standard Vacuum Co. We are a part owner of Colpete, a producing company in Columbia. We own our own company, and it is a wholly owned subsidiary, operating in Venezuela. I do not recall any others right at this precise second.

The CHAIRMAN. Do you import into this country?

Mr. WILLETTS. Yes, sir; we do.

The CHAIRMAN. Is there any inability of your company to procure all of the oil it needs to meet its particular demands?

Mr. WILLETTS. No; we are procuring the oil we need now to meet our demands.

The CHAIRMAN. Is there any look into the future that would indicate—and I speak of the immediate future—that your present holdings would not be sufficient to supply all of the oil that you need?

Mr. WILLETTS. It depends upon how long you look into the future.

The CHAIRMAN. Well, I will let you determine the time that you can look into it and speak with any degree of certainty.

Mr. WILLETTS. We feel that with our reserve situation as it is, and the increase in the rate of construction, we need more oil reserves in order to meet the future demands of our own customers. We think that that is true of the industry.

The CHAIRMAN. You took exception to my use of the word "immediate." What do you mean by "future demands"?

Mr. WILLETTS. I am thinking in terms of 1960 and 1970, where very able people are predicting extremely sizable increases in the consumption of petroleum and petroleum products in the United States and in the world. I am thinking in terms of statements and predictions that I have seen that say in 1960, instead of in the vicinity of 7¾ million barrels consumption of crude and products in this country, that it may go to 10 million barrels, and in 1970 or 1975 to 14 million barrels, which is almost double the current rate.

In order to provide for that extremely sizable expansion, we need to do a lot of planning and a lot of discovering at this time because it takes an awful long time in order to find oil, to discover it, to develop the fields, and to get the oil to the place where it can be broken up in the refineries into finished products.

The CHAIRMAN. Has the increased price that your company has charged for its products and its crude been for the reason that you have just expressed?

Mr. WILLETTS. In the long run, part of it certainly will be for that effect; yes.

The CHAIRMAN. In other words, you could not carry on the expansion unless you had increased prices at this time?

Mr. WILLETTS. We could not. We found that at the end of last year we were short of cash to go ahead and carry on our expansion and had to sell 10 percent more stock. We find that we are going to have the largest expenditures this year we have ever had in our company history, a great deal of which is going into production; a very high percentage, I believe, over 60 percent. Another high percentage is going into refining in order to give us better facilities to make better products. In the instance of the Ferndale Refinery in the State of Washington, it will be an outright expansion.

The CHAIRMAN. How much do you figure will be the increase of revenue that will come to your company as a result of the increase of June 9 and the later one?

Mr. WILLETTS. I believe I answered in connection with that question this morning.

The CHAIRMAN. I may have been out of the room.

Mr. WILLETTS. I have it figured somewhere here, I believe. We estimate that the increased realization following the crude advance will be about $40 million.

The CHAIRMAN. Is that $40 million?

Mr. WILLETTS. Yes, for the company. We estimate that the increased annual realization on the June 9 move, or June 10, in the east-

ern area on gasoline alone, will amount to somewhere in the vicinity of $9 million; so that is $49 million.

Now, out of that we buy 47 percent of our crude, and we pay the increased cost to the person from whom we buy. We buy about 17 percent of our finished products, and we will have to pay increased prices for those products. As I mentioned this morning, we have one large purchase contract for distillate oils with an independent gulf coast refinery. Written in the contract there is a price at which we have been buying it. Also written in the contract is a clause which says that the price shall advance one-eighth of a cent a gallon for each 5 cent increase in the barrel of crude.

When we get all through with these increases that we have taken in, we have got to pay off these extra costs and we have got to pay Federal and State income taxes on the increase in money. So the figure that we will get back to the company, net, is considerably less than the amounts that I have mentioned.

It would seem to me—and this is assuming all of these increases will remain in effect, and it is obvious now that they are not going to because already on the east coast the price of distillants has been reduced three-tenths by a competitor—that we will undoubtedly have to meet it. We are studying this situation now.

Thinking in terms of that reduction, if we put it into effect in like amount, and I do not know just what we are going to do yet; we will know tomorrow, that would decrease our realization about $41½ million on the annual sales that we make of distillant fuel oils.

The CHAIRMAN. Are those figures that you gave me on an annual basis?

Mr. WILLETTS. All annual, sir.

The CHAIRMAN. What is your total revenue at the present time?

Mr. WILLETTS. Our total revenue, I think last year, was something over one billion and a half million dollars. That is my recollection.

The CHAIRMAN. What was your net earnings?

Mr. WILLETTS. Our net earnings were $171 million.

The CHAIRMAN. Now, do you feel that in the domestic crude price rise that there is a consideration that this might decrease the pressure on legislation restricting imports?

Mr. WILLETTS. I do not feel anything of the sort; no, sir.

The CHAIRMAN. I have before me a statement that was made by Mr. Russell B. Brown of the Independent Petroleum Association of America and it states he said he was encouraged by the Phillips Petroleum Co.'s 25-cent crude-oil advance, saying it would lessen the pressure for legislative action on imports. Without reading his full statement, it contains these words:

> Undoubtedly, it will lessen the pressure for immediate legislative action on the imports problem.

To whom does he refer as to lessening of pressure?

Mr. WILLETTS. That is a question, sir, I cannot answer. I do not believe it is going to lessen the pressure.

The CHAIRMAN. You do not see any possibility of that?

Mr. WILLETTS. I do not believe it is going to; no.

Mr. PRIEST. Where has most of the pressure for limitation of imports come from up to this point? It seems to me it is on the part of the coal industry.

The CHAIRMAN. I will let these gentlemen who represent the oil industry speak for themselves.

Did your company oppose the limitation on importations?

Mr. WILLETTS. No; we did not.

The CHAIRMAN. I beg your pardon?

Mr. WILLETTS. We did not oppose it. We did speak in behalf of no imposition of limitations on imports. That is in Mr. Jenkins' statement that you read from this morning.

The CHAIRMAN. That is true of all of the major oil companies, is it not?

Mr. WILLETTS. All is quite inclusive. I know there were several of them, sir.

The CHAIRMAN. Enough to indicate that that was the industry's opinion?

Mr. WILLETTS. Certainly it was the opinion of those companies. All of the major companies do not import.

The CHAIRMAN. Well, I realize on these questions of price that when one company raises its price others do likewise, and I just took from that that maybe even though there were 4 or 5 only that testified, that that would be sufficient to indicate the industry's viewpoint.

Mr. WILLETTS. I think we are taking in our situation the long-range viewpoint of the Nation. We are thinking in terms of these tremendous predicted increases in need for crude oil. We are considering the relative reserves today to consumption, while they are high, the consumption and reserves expressed in terms of ratio are probably lower now than they were before World War II.

The CHAIRMAN. Has there been any rehabilitation or expansion of the East Indian fields since the war?

Mr. WILLETTS. The East Indian fields I am not thoroughly familiar with, but I believe there has been some expansion. I believe Standard Vacuum is doing some expansion in the fields in that area.

The CHAIRMAN. With your plant in Sumatra, or your refinery there, have you improved that? Is that in working order at the present time?

Mr. WILLETTS. The plant in Sumatra is owned by the Standard Vacuum Oil Co. in which we have an interest. It was damaged at the time of the war, but it has been put back on stream and it is operating. It is my recollection that they are making improvements in the refinery or are about to start making improvements right now.

The CHAIRMAN. What is the market for that oil and gas?

Mr. WILLETTS. Well, local consumption, some of it I believe goes into the Philippines; I do not know. I cannot give you the whole area, but it remains generally over in that area.

The CHAIRMAN. Has there been any price increase there?

Mr. WILLETTS. I cannot answer your question, sir.

The CHAIRMAN. I do not suppose you could say whether there would be likely to be an increase?

Mr. WILLETTS. No, sir; I could not.

The CHAIRMAN. Would that come under you, as the marketing man?

Mr. WILLETTS. No, sir; it would not. I am connected only with the domestic operation of the company, and that is a Standard Vacuum proposition.

The CHAIRMAN. Are you on the board of directors?

Mr. WILLETTS. Yes, sir, I am.

The CHAIRMAN. Will it come to your attention in that way?

Mr. WILLETTS. No, sir. The Standard Vacuum Oil Co. is a separate segregated company in which our company has a stock ownership, and it has its own board and makes it own decisions.

The CHAIRMAN. And the directors of the parent company, then, do not consider anything pertaining to subsidiary companies?

Mr. WILLETTS. We certainly do not sit down and figure out what the price is.

The CHAIRMAN. Or do not even discuss what the policy might be?

Mr. WILLETTS. They give us a report as any company would on an annual basis of what their activity has been.

The CHAIRMAN. How much is your interest?

Mr. WILLETTS. Fifty percent.

The CHAIRMAN. A half interest?

Mr. WILLETTS. Yes, sir.

The CHAIRMAN. And yet you cannot say from sitting on the board of directors of the Socony-Vacuum what the policy of the Standard Vacuum Oil Co. is?

Mr. WILLETTS. You mentioned the policy.

The CHAIRMAN. With reference to what I have asked you.

Mr. WILLETTS. I do not know that; no, sir.

The CHAIRMAN. You have never heard it discussed?

Mr. WILLETTS. I have not heard prices discussed by the Standard Vacuum Oil Co.

The CHAIRMAN. I wonder who would know in the parent company what goes on in any subsidiary, if the board of directors does not know.

Mr. WILLETTS. I think that the Standard Vacuum board would know about it, or some member of it.

The CHAIRMAN. And the 50-percent interest would not be sufficiently large enough to interest the board of directors of the parent company?

Mr. WILLETTS. The company seems to be operating well, and apparently our board is satisfied that it is operating well. It cannot sit in control of all of the actions of that board, and it does not.

The CHAIRMAN. When you hold 50 percent, you can come pretty near dictating what policy is, according to the testimony introduced before this committee and legislation that has been previously passed. It was indicated a much less amount than that was all that was necessary in most instances to control policy of a company.

Whether or not you do control the policy, I am at a loss to understand how any member of the board of directors of the parent company, owning 50 percent of another oil company, does not know what is taking place in the other company with respect to the future of that company, as to price or other policies that would be appropriate for us to know in a matter of this kind.

Mr. WILLETTS. As I have said to you, sir, my portfolio is domestic marketing and I cannot testify to something happening in the Far East.

The CHAIRMAN. Now, I want to speak for just a moment or two to you about the question of depletion. Were you present yesterday when I examined Mr. Keller with respect to that?

Mr. WILLETTS. Yes, sir.

The CHAIRMAN. What has been your chargeoff for tax purposes in the recent years under the depletion allowance?

Mr. WILLETTS. I cannot answer.

The CHAIRMAN. How much has it amounted to?

Mr. WILLETTS. I cannot answer your question; I do not have it with me.

The CHAIRMAN. Could you give it for 1950?

Mr. WILLETTS. No, sir.

The CHAIRMAN. For 1951?

Mr. WILLETTS. On any year; I do not have it.

The CHAIRMAN. Or 1952?

Mr. WILLETTS. I can get it and supply it to you, but I haven't got it with me. I will be glad to do that.

The CHAIRMAN. You do not have any copy of your annual report with you?

Mr. WILLETTS. It does not show in the annual report.

The CHAIRMAN. I have an annual report here for Socony-Vacuum. There is a statement here of depletion, abandonments, and amortization of intangible development costs, and leases, in 1951, of $49,523,257; and in 1952 of $63,395,041. Do you have anything that you could tell me whether I am right in this as I read from your annual report?

Mr. WILLETTS. I do not believe, sir, that that is percentage depletion.

The CHAIRMAN. What is that?

Mr. WILLETTS. I do not believe that that is percentage depletion.

The CHAIRMAN. Then I have another one here, depletion of plant retirements and other amortization, $49,514,448 in 1951; and $56,765,554 in 1952. Would that cover it?

Mr. WILLETTS. No, sir; I do not believe that in any item in that statement the item of percentage depletion is indicated. That is a computation used for figuring income taxes.

The CHAIRMAN. What do you mean, that which I have just read?

Mr. WILLETTS. No, sir; the percentage of depletion amount.

Mr. CHAIRMAN. And the stockholders of your company are not advised as to that, then?

Mr. WILLETTS. They are not advised in this statement to my knowledge, sir.

The CHAIRMAN. I have here a statement in a prospectus that was issued June 2, 1953, that the intangible development costs of producing wells which are deducted in full in computing the annual provisions for Federal taxes on income are capitalized and amortized on a per barrel unit basis for book purposes. The amounts deducted for tax purposes in 1950, 1951, and 1952 exceeded the amounts amortized and written off for book purposes by approximately $23 million, $27 million, and $32 million, respectively. Intangible drilling expense for dry holes is charged to current income at the time such holes are determined to be dry.

Does that information help you any to give me the information that I want?

Mr. WILLETTS. No, sir, because that information, it is my understanding, has nothing to do with the percentage depletion.

The CHAIRMAN. Then there would be no source from which this committee could obtain that information except by examination of income returns?

Mr. WILLETTS. No, sir. We would be glad to send you the amount that we have used in computing that.

The CHAIRMAN. We certainly would like to know it for the last 10 years.

Mr. WILLETTS. We will see what we can do to supply it to you.

The CHAIRMAN. Thank you.

Now, then, I suppose you would not be able to give me the amount that has been charged off in your income tax on the basis of the expenses incident to drilling?

Mr. WILLETTS. I cannot give you the exact amount. I can furnish it to you, but I cannot give it to you offhand.

The CHAIRMAN. We would like to have that, if we can have it, for the same period.

Mr. WILLETTS. We can give it to you.

The CHAIRMAN. Now, when you speak of this as depletion, and this chargeoff in your income account for your expenses incurred, that results in a very tidy sum; does it not?

Mr. WILLETTS. Yes, but in a business our size it would be a tidy sum with the investments we have.

The CHAIRMAN. Is that money usable for any purpose after it is charged off?

Mr. WILLETTS. Yes, it is part of the money we use to buy back the assets we deplete or depreciate.

The CHAIRMAN. How much of it goes into exploration?

Mr. WILLETTS. In our latter years we have been spending something over 80 percent of the money that we are spending in the company in the production of our business.

The CHAIRMAN. And whatever that produces in the way of wells and resources adds to the equity of the shareholder, does it?

Mr. WILLETTS. Yes. It is money that we have in the business. We take it out and reinvest it. We take it out one year and we continually put it back in, plus more.

The CHAIRMAN. With that incentive, is it necessary in addition to that to have a 25-cent a barrel increase or any other increase?

Mr. WILLETS. We think that long-range, based on the predictions of authorities we think competent, that there is a need for some further incentive to go ahead and find the oil and to drill it up so that we will be able to take care of the needs of our customers in the estimated very sizeable increases in future years.

The CHAIRMAN. Do you think it would be reasonable to expect that the entire amount that would be receivable as a result of this depletion allowance, that there being a requirement that it be used in the discovery of new wells?

Mr. WILLETTS. I do not think in our instance it would make too much difference because we are putting such a great percentage of our money in crude production, in crude exploration now, that I do not think it would make too much difference. But whether or not that would make some difference to a lot of other smaller people in this industry, I do not think I am in a position to say without having studied it. It comes rather rapidly, and I would like to answer that after study.

The CHAIRMAN. I will be glad to have you add anything to your answer that you may wish to add.

The Secretary of the Treasury, Secretary Snyder, on February 5, 1951, had this to say:

Fully as important as improved enforcement is the need for improving the tax structure in those areas which enable favored taxpayers to escape their fair share of the burden. One of the major structural defects is percentage depletion available to oil and mineral producers. This is costing the Government, and therefore the taxpayers in general, hundreds of millions of dollars each year.

Then, skipping a ways, he goes on to say:

In addition to the highly favorable depletion allowances, oil producers can immediately deduct for tax purposes a substantial part of their outlays for drilling and development. The amounts of capital investment thus written off at the outset have no effect on the future percentage-depletion deductions. This results in a double deduction with respect to the same capital investment. Combined impact percentage depletion and the privilege of deducting drilling and development costs as a current expense is to wipe out the tax liability on income running into millions of dollars.

Is that a true statement?

Mr. WILLETTS. I do not know whether it is a true statement. I am not an expert on tax depletion. I think we have got to think in terms of tax depletion as one thing that has helped this industry to do the job that has been done. It was set up for a purpose of giving incentive to people to go explore and find oil, and I think the record of the industry is such that it has been proved, and the case has been proved for it.

The CHAIRMAN. I am not entering into a discussion of the merits or demerits of it; I am merely pointing out the important part, that it does have, from the standpoint of assistance to the companies in carrying out the programs that you visualize as so necessary for the future.

Now, that it does have that effect, I will read what General Thompson of the Texas Railroad Commission had to say on March 6, 1951, in testifying before the Ways and Means Committee. He said:

With the uncertainties of the future to be faced, we must find an additional reserve cushion of oil for our defense. Our safety margin is too short. The question of depletion allowance here under consideration is the keystone upon which this added production can be built. It is a proven incentive.

Then Mr. Russell Brown, on March 6, 1951, in giving his testimony, had this to say—this is Mr. Brown of the Independent Petroleum Association.

So with the percentage depletion law, it has become so well-established and it has proven so valuable as an incentive to the search for oil that I should not be surprised some day to hear that the Russians have claimed they invented it. In fact, if they were to invent an incentive as effective as depletion, I think we had better worry a lot more about their warmaking capacity.

That is a pretty high opinion of depletion.

And then Mr. Swensrud, in behalf, of the American Petroleum Institute, in speaking of depletion, on March 6, 1951, had this to say:

To find and develop new fields capable of maintaining the productive capacity therefore requires a vast and unremitting expenditure of capital and effort. This is why the depletion allowance is so important in maintaining and expanding our natural oil production.

Then again he said:

Neither, I believe, would anyone familiar with the history and processes of the oil industry doubt for a moment that the depletion allowance has been a powerful factor in enabling American oil producers, large, small, and interme-

diate, to achieve the tremendous task not only of maintaining high-productive levels but of constantly increasing them.

I have read those extracts because they would seem to indicate that with depreciation allowance the Government is participating to a very large extent in the expansion of our oil companies. Certainly when in addition to that they are enabled to charge off on income statements of cost of drilling of wells as an operating expense, the two together make a tremendous saving to the oil companies in the course of a year.

Mr. WILLETTS. I am not quite sure, sir, that that is a double saving. There are parts of it I do not think are.

The CHAIRMAN. Some of the members of the committee may desire to ask some further questions.

Mr. PELLY. Mr. Chairman, I would like to get a clear idea of what this 25-cent increase a barrel amounts to on our defense appropriation this year.

I wonder in the case of your company how much of your production goes to aviation gasoline and other petroleum products that are sold to the Government.

Mr. WILLETTS. I do not have our figures available. We do sell to the Government sizable quantities.

Mr. PELLY. You bid on those and your contracts run for 6 months or something like that?

Mr. WILLETTS. They are generally awarded for a 6-months period.

Mr. PELLY. But this will reflect quite an increase, will it not, in the cost?

Mr. WILLETTS. If these prices remain in effect, this will increase the prices at which the Government buys certain materials. It all depends upon individual contracts. Most of ours, I believe, have an escalator clause in them.

Mr. PELLY. So that they would automatically go up?

Mr. WILLETTS. Yes, sir.

Mr. PRIEST. Did I understand you to say that most of them had escalator clauses?

Mr. WILLETTS. Most of ours do. I am just speaking about Socony-Vacuum Corp.

Mr. PELLY. There is an institute which keeps figures on the entire petroleum industry, is there not, so that if this committee wanted to find out the actual total petroleum products that are sold domestically, we could find out? Also, how much of those would go for defense and how much was sold to the Federal Government, we could find that out; could we not?

Mr. WILLETTS. Yes, sir, and I think that you have the figures right within the Federal Government. The purchasing people in the Federal Government would know.

Mr. PELLY. I think probably the Defense Department would give us that information.

Mr. Chairman, I wonder if we could have the Defense Department give us the figure as to how much this is going to cost the Federal Government, this increase of 25 cents a barrel; how much they estimate it will cost the Government through escalator clauses; how much it will affect this year's budget.

The CHAIRMAN. We will go into all of that.

Mr. PELLY. Then I will not take the time of the witness.

The CHAIRMAN. We will also go into what it will cost the Mutual Security Administration, what it will increase the prices to them.

Mr. HESELTON. Mr. Willetts, I was interested in your comments on the bill that I filed and to which I referred. As I understand it, it was to the effect that if the oil industry were let alone, it can best protect the public over a long period of time and do it better. I wondered if you mean by that, that what is good for General Petroleum is good for the country.

Mr. WILLETTS. I do not understand your General Petroleum reference. I mean by that, that based on the past history of this industry, operating under a free economy, it has done a good job for the people of this country and contemplates doing a good job for the people of this country in the future in attempting to meet what we estimate to be vastly increased demands in the way of crude and finished products.

I think under a free economy that they can do it and furnish the goods at the price and where they want it and when they want it, and that is the basis of my statement. I did not make that statement, sir, on the basis just because you said that you had introduced the bill. I have no personal quarrel with your connection with it.

Mr. HESELTON. I appreciate that, but it does occur to me that the position you are taking here, which is shared by others, and I do not mean to single you out by any manner of means, but apparently there is a determined position of the industry. If this sticks, as they say, they feel the ultimate users of petroleum products, to say nothing of the national defense and to say nothing of the mutual security—I am talking now about the domestic users—are going to be charged somewhere, according to your own estimate, in the neighborhood of $500 million additional a year. It may not leave the people who are going to pay the bill with a very happy feeling that industry is looking out primarily for their welfare.

Possibly I misunderstand the reaction that will come over a period of time, but I rather suspect that a lot of people in the country would like to see us back on a sound fiscal system. I honestly do not think that these price increases have made any contribution toward that end.

Mr. WILLETTS. I have an idea that if the industry's position were explained to all of the people, that a goodly percentage of them would not complain too bitterly because they have got pretty good products for their money and they are getting it when they want it. If they know that this industry is working and planning for years ahead to try and supply them with products, I think that is the thing that they want.

You and I remember very distinctly the cold winter of 1948 when people could not get, when they wanted it, all of the distillate fuel oil they wanted. The difference between supply and demand at that time was so close that the distribution function could not keep up with it, so we had some shortage.

Mr. HESELTON. On that point I remember very distinctly that the argument used at that time to explain the situation was a shortage of tankers and not the shortage of any supply.

Mr. WILLETTS. I do not think that there was truly a shortage of supply, but the supply and demand situation because of that extremely cold winter was very delicate. I remember distinctly the attitude

of people then toward products, and when they did not go cold at the attitude of them toward this industry and their Government.

I remember also very distinctly that at that time because we were very short, we spent about $11 million curing ourselves so as to get products to the people. In fact, we even brought some of it from the west coast in a tanker through the canal up the east coast to do it. We did not pass that price on to our public, either.

Mr. HESELTON. You may be entirely right, but I would not be at all surprised to see if you would start getting natural gas into the Northeast, in any substantial amount, that the people who have the responsibility for the marketing of petroleum products may find that a good portion of the customers would turn over to natural gas. I may be wrong about that.

On behalf of the committee——

Mr. HARRIS. I would not want the record to go by indicating that it was the consensus of this committee that we should get back into the control phase of the business of this country. That is, just because there might be some suggestions that come from these hearings, or there might have been certain bills introduced reenacting controls.

As I understand, the policy of the present administration is in the other direction, is that not true? Or do you know?

Mr. WILLETTS. That is my understanding.

Mr. HARRIS. And, in fact, it was only a short time after the present administration took over that all of the controls were completely eliminated, is that not also true?

Mr. WILLETTS. Yes, sir.

Mr. HARRIS. And now there seems to be suggestions to come back from members of the same party that we again reinstitute controls. That subject has been discussed here with reference to the proposed legislation, and I would not want anything to indicate in the record that certainly as one member of the committee that I am for reinstituting controls of the industry. I personally have gone through enough of that during my experience in this Congress when the country and the Congress felt it was necessary during World War II and during the Korean war which is still going on.

Now, you were interrogated also on the question of percentage depletion. That is a policy that started back in 1913 and received adjustments in 1917, I believe, and in 1919 and again in 1923. Finally about 1926, the present depletion program was provided by the Congress of the United States.

Now, if there had been any indication in the record here that that is a policy of the Congress for the interest of the oil industry itself, as for one member, I do not share the view at all.

I would like to ask you this question: Your company explores, and you have an exploration program?

Mr. WILLETTS. Yes, sir.

Mr. HARRIS. Could you give us, or perhaps you would have to supply it for the record, the expenditures of your company on an annual basis of exploration say in the last 10 years?

Mr. WILLETTS. I think we can; yes, sir. We will be glad to do that.

Mr. HARRIS. And with that, give us for the record the amount of money that you have received from the 27½ percent depletion.

Mr. WILLETTS. I have agreed to furnish that already, sir.

Mr. HARRIS. Then we can compare the amount of money that you have put into your exploration program with the amount that you have been able to take credit under a Government policy for, in order that we may see how the program is working toward exploration and the program that gives us the increased reserves each year.

Now I should like to ask one other question. You refine oil, do you not?

Mr. WILLETTS. Yes, sir.

Mr. HARRIS. What is the refinery price of gasoline?

Mr. WILLETTS. The refinery price of house-brand gasoline in the gulf of 87-octane material is 11.75 per gallon, in the gulf.

Mr. HARRIS. What is that again?

Mr. WILLETTS. Eleven and three-quarter cents.

Mr. HARRIS. And that is the gasoline that is selling at the filling stations here in the East at 32 cents, is it not?

Mr. WILLETTS. That 32 cents seems a little high. I think that is the premium grade of gasoline.

Mr. HARRIS. Is that what we call high test?

Mr. WILLETTS. That is the premium grade; I was speaking of house-brand grade, our Mobilgas.

Mr. HARRIS. Is that what we call regular?

Mr. WILLETTS. That is right.

Mr. HARRIS. That is 28 cents?

Mr. WILLETTS. Somewhere in that vicinity.

Mr. HARRIS. That is what I paid. I paid 30 cents, or I paid 32 cents in an Esso station over in Virginia.

Mr. WILLETTS. I should put in a plug for Mobilgas here, I guess.

Mr. HARRIS. The point is, 11¾ cents at the refinery, and yet the retail price at the filling station is around 30 cents here in the District and surrounding areas. Is that true or not?

Mr. WILLETTS. I do not know the exact price, but it is in that vicinity; yes.

Mr. HARRIS. Anyway, it will vary, the price will vary in accordance with the tax of that particular jurisdiction?

Mr. WILLETTS. Yes; that retail price you quote includes taxes, State and Federal.

Mr. HARRIS. Now, will you supply for the record the price of gasoline, regular gasoline at the refinery each year for the last 10 years?

Mr. WILLETTS. We will, just for that purpose, assuming it is available, furnish the price quoted in Platt's Oilgram in the Gulf of Mexico.

Mr. HARRIS. I think it would be a revealing bit of information.

(The information follows:)

Mr. Harris requested that we submit a list of gasoline prices, regular gasoline at the refinery each year as quoted in Platt's Oilgram for the Gulf of Mexico. These prices are reported in appendix IX hereto annexed. Gulf prices were frozen by price control during the war years at a very low level and did not commence to rise until midsummer 1946, when the price of crude oil began to move upward.

APPENDIX IX

Regular gasoline, gulf-coast prices (lows)—Cargo lots

Date of change	Cents per gallon	Date of change	Cents per gallon	Date of change	Cents per gallon
Nov. 3, 1942	5.75	Aug. 15, 1946	6.50	Mar. 22, 1949	10.00
No changes, year 1943		Nov. 21, 1946	6.625	Oct. 18, 1949	9.875
Aug. 15, 1944	5.625	Dec. 12, 1946	6.75	Nov. 2, 1949	9.75
Sept. 18, 1945	5.75	Feb. 18, 1947	7.00	Nov. 30, 1949	9.50
Feb. 4, 1946	5.375	Feb. 20, 1947	7.375	Dec. 13, 1949	9.375
Feb. 11, 1946	5.25	Feb. 26, 1947	7.125	Mar. 24, 1950	9.50
Mar. 15, 1946	5.125	Mar. 18, 1947	7.50	Apr. 13, 1950	9.625
Mar. 20, 1946	5.25	Mar. 19, 1947	7.625	Apr. 17, 1950	9.75
Apr. 15, 1946	5.375	Mar. 21, 1947	7.75	Apr. 19, 1950	10.00
Apr. 19, 1946	5.50	Mar. 25, 1947	7.875	Apr. 28, 1950	10.25
Apr. 22, 1946	5.375	May 7, 1947	8.00	May 8, 1950	10.50
Apr. 23, 1946	5.50	June 16, 1947	8.25	June 27, 1950	10.75
Apr. 25, 1946	5.625	July 10, 1947	8.50	No changes, year 1951	
May 15, 1946	5.75	Aug. 7, 1947	8.75	Apr. 19, 1952	11.00
July 30, 1946	6.65	Aug. 19, 1947	9.00	May 6, 1953	11.25
July 31, 1946	6.625	Dec. 23, 1948	9.50	June 23, 1953	11.75

GRADE LEGEND

Brand	From—	To—	Brand	From—	To—
Octane leaded:			Octane research:		
72–74	Jan. 1, 1943	Nov. 8, 1943	83	Sept. 17, 1949	Dec. 31, 1949
72	Nov. 9, 1943	Aug. 15, 1944	82	Jan. 1, 1950	Apr. 19, 1950
70–74	Aug. 16, 1944	Sept. 18, 1945	83	Apr. 20, 1950	Apr. 17, 1952
73–75	Sept. 19, 1945	Mar. 19, 1946	85	Apr. 18, 1952	May 22, 1952
76–79	Mar. 20, 1946	Apr. 19, 1946	86	May 23, 1952	Apr. 30, 1953
74–77	Apr. 20, 1946	June 25, 1946	87	May 1, 1953	July 1, 1953
74–76	June 26, 1946	Sept. 16, 1949			

Socony-Vacuum Oil Co., Inc. and its affiliates, Magnolia Petroleum Co., and General Petroleum Corp.—Exploration and development costs written off for book and tax purposes—Years 1950, 1951, 1952

[In thousands of dollars]

	Year 1950		Year 1951		Year 1952	
	Per books	For income-tax purposes	Per books	For income-tax purposes	Per books	For income-tax purposes
1. Depreciation, depletion and amortization of capitalized costs:						
(a) Lands and leaseholds:						
Amortization of nonproducing properties	4,903		4,798		5,629	
Depletion of producing properties	1,969	2,198	2,045	2,256	4,706	4,42
(b) Geological and geophysical		[1]		[1]		[1]
(c) Productive wells (equipment and materials on producing properties)	[2] 9,963	[2] 9,724	[2] 12,226	[2] 11,406	[2] 12,660	[2] 11,649
Per barrel unit: None applicable.[3]						
2. Intangible drilling costs, productive wells		39,509		46,416		52,076
Depletion of intangible drilling costs	16,124		20,479		24,120	
Per barrel unit: Not applicable.[4]						
3. Nonproductive well (dry hole) costs	12,686	12,686	14,714	14,714	20,493	20,493
4. Other expense or writeoffs on nonproductive properties either as direct charges to expenses or cancellation or abandonment of leases:						
(a) Lands and leaseholds (abandonments)	375	5,290	361	4,872	561	5,567
(b) Geological and geophysical	7,772	6,278	8,747	7,397	11,623	9,123
(c) Delay rentals	4,342	4,342	4,544	4,544	5,125	5,125
(d) Taxes on nonproducing properties	122	122	112	112	106	106
(e) Other expenses on nonproducing property	337	337	243	243	215	215
(f) Land department expense	1,268	1,268	1,473	1,473	1,752	1,752
(g) Research and development expenses	1,550	1,550	1,896	1,896	1,372	1,372
5. 27½ percent depletion allowance (depletion allowance in excess of tax cost depletion)		37,232		45,488		45,184
6. Total of above items	61,411	120,536	71,638	140,817	88,362	157,604
Production: Total in barrels of crude oil and natural gas liquids, and of dry gas expressed on an oil equivalent basis (thousands)	[5] 100,978		[5] 118,272		[5] 124,028	

[1] Depletion of geological and geophysical costs capitalized for tax purposes is included in the amount shown under 1 (a), depletion of producing properties.

[2] Represents depreciation on pipe and equipment in wells, wellhead equipment, flow lines, and all other equipment on leases including camp and district equipment and repressuring plants.

[3] We do not have a composite per barrel unit figure as most of the items involved are depreciated or amortized on a life basis.

[4] We do not have a composite per barrel unit figure as these costs are depleted on an individual-property basis and per barrel costs vary from property to property.

[5] Domestic net-crude production includes (1) all crude obtained from properties operated by Socony-Vacuum except royalty crude owned by others, plus (2) company-owned royalty crude obtained from properties operated by others, plus (3) the production of natural gas (converted to equivalent barrels at the ratio of 6,000 cubic feet to 1 barrel).

NOTE.—Tax figures are tentative as they have not yet been audited by Federal tax examiners.

SOCONY-VACUUM'S TREATMENT OF EXPLORATION AND DEVELOPMENT COST

1. FOR BOOK PURPOSES

Nonproducing property costs

(1) Acquisition costs are capitalized and amortized by individual leases over the life of each lease.

(*a*) When a lease is abandoned its unamortized cost is written off.

(*b*) When a lease becomes productive its unamortized cost is transferred to producing properties.

(2) The following expenses are written off in the year in which they are incurred.

(*a*) Geological and geophysical costs.

(*b*) Delay rentals.

(*c*) Taxes on nonproducing properties.

(*d*) Other expenses on nonproducing properties.

(*e*) Land department expense.

(*f*) Research and development expense.

Producing property costs

(1) Acquisition costs are capitalized and depleted by individual properties on the basis of the crude oil and gas reserves.

(2) When a nonproducing property becomes productive its unamortized cost is also depleted on the basis of its crude oil and gas reserves.

(3) Depletion is calculated annually for each property by dividing the unrecovered cost by the remaining recoverable crude oil and gas reserves and multiplying the resultant per barrel unit cost by the barrels produced.

Intangible drilling costs

(1) All intangible drilling costs of productive wells are capitalized and depleted by individual properties on the same basis as producing property costs.

(2) All intangible drilling costs of dry wells are written off.

Plant and equipment

(1) All plant and equipment on the lease including surface well equipment of productive wells (but excluding subsurface well equipment) is depreciated on a life basis.

(2) Subsurface well equipment of productive wells is depreciated on the same basis as producing property costs are depleted.

2. FOR TAX PURPOSES

Tax treatment is in accordance with Internal Revenue Code and regulations. The company has elected for tax purposes to treat intangible drilling costs as current expense.

Mr. PRIEST. I would like to make one request in addition to what you have requested. In addition to the figures that Mr. Harris requested on exploration, would it be possible during that same period for you to give the committee the number of dry wells that have been drilled by your company?

Mr. WILLETTS. Yes; we will give you those, too There are a lot of them.

Mr. PRIEST. I would like to have that figure, if you can furnish it, along with these other things.

The CHAIRMAN. It is important for us to have that information for the reason that it was advanced yesterday that the reason for the increase of 25 cents a barrel was in order to be an incentive to carry on explorations and discoveries. Therefore, when you consider whether 25 cents extra on a barrel is necessary to do that, it is important to have these figures that you have been asked to give today. We will endeavor to obtain the same information from all of the companies and not only your own.

Now, it is very regrettable that we will have to adjourn on account of this rollcall in the House. I cannot conceive that there would be much need of our coming back. The rollcall usually takes about 40 minutes and that would bring us very close to 5 o'clock. I think under the circumstances, therefore, it will be necessary for us to adjourn at this time until 10 o'clock tomorrow morning.

(Whereupon, at 4:20 p. m., a recess was taken until Wednesday, July 8, 1953, at 10 a. m.)

PETROLEUM STUDY

(Gasoline and Oil Price Increases)

WEDNESDAY, JULY 8, 1953

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D. C.

The committee met at 10 a. m., pursuant to the taking of a recess, in room 1334, New House Office Building, Hon. Charles A. Wolverton (chairman) presiding.

The CHAIRMAN. The committee will be in order, please.

The first witness this morning will be Mr. Hines Baker, of the Humble Oil & Refining Co.

Will you take the stand and give your full name and position?

STATEMENT OF HINES H. BAKER, PRESIDENT, HUMBLE OIL & REFINING CO.

Mr. BAKER. Mr. Chairman and members of the committee. I appreciate the opportunity of appearing before the committee in connection with these investigations that are being had.

I would like to discuss first the crude oil and product price changes that have occurred, and then I would like the opportunity of making some reply to the inquiries that the chairman and other members of the committee have made in regard to conservation procedures and practices, and the matter of regulation of production to market demand; particularly to reply to the testimony of Mr. Paul Hadlich bearing upon that question.

The CHAIRMAN. Is it your intention also to give us answers to the 17 questions?

Mr. BAKER. Yes, sir; I have prepared already answers to the 17 questions, and I have delivered my answers to the clerk for your use, and of course I would be glad to attempt to supplement that in any way that you may wish by further inquiry.

The CHAIRMAN. Very well, you may proceed, and we will give you an opportunity to cover the additional points that you have mentioned.

Mr. BAKER. I am president of Humble Oil & Refining Co., and live at Houston, Tex.

Humble Oil & Refining Co. is engaged in all of the principal operations of the petroleum industry. Its net crude oil production is about 350,000 daily, concentrated principally in Texas and Louisiana, although exploration and production are carried on from California to Florida. Humble Pipe Line Co., a wholly owned subsidiary, is engaged in transportation of crude oil in Texas and New Mexico.

Humble purchases and sells large amounts of crude oil in Texas and New Mexico. Purchases of oil are made from approximately 24,000 wells, including those operated by the company from which royalty oil is purchased. These purchases averaged 427,500 barrels daily in 1952. Humble sells crude oil to more than 25 nonaffiliated companies in addition to an affiliate, including a number of small refineries, such as Cosden, McMurrey, Southwestern, Taylor, and the Texas City Refining Co. Humble's sales of crude oil in 1952 were 521,600 barrels daily, including some of the company's own production.

Humble has only one refinery, located at Baytown, Tex., with a capacity of 260,000 barrels daily and with crude oil runs in 1952 of 251,600 barrels daily. Humble is also engaged in wholesale and retail distribution of gasoline in a large part of Texas. It is not outside of Texas. It sells at wholesale to some 2,200 dealers and in addition operates 307 stations. Humble's gasoline sales represent 16 percent of the tax-paid gasoline sales in Texas.

As a purchaser and seller of crude oil in competition with many other purchasers and sellers, Humble follows closely the forces affecting prices. A proper interpretation of the market is necessary in order for us to carry on this business with success. If our interpretation is not correct, we stand to lose customers or supplies to others and to find that we cannot balance our supply and demand.

Our interpretation of the market for crude oil is shown by the price bulletins we publish from time to time. These bulletins announce prices for each grade of crude oil that we handle. Such prices are paid to all producers and royalty owners and are the bases of the prices charged to those who purchase oil from us in turn. Changes are made in these posted prices in response to various market forces.

In the absence of Government controls, crude-oil prices are determined in the short run by the forces of supply and demand, and in the long-run by these forces and particularly as an element of cost affecting supply, the cost of production. In the short run, supply may so exceed demand as to set a price resulting in subnormal profits or even in losses to producers.

Such deviation of price from a reasonable relationship with costs is bound to be temporary, for it sets in motion forces that will bring about price changes. Prices that are low relative to costs discourage the development of new supplies and stimulate demand. These divergent tendencies will, in time, bring about prices more nearly balancing the rates of growth of demand and supply. Opposite developments will take place if prices are too high relative to costs, but again the tendency will be toward a price level in which demand and supply will keep pace or balance.

A purchaser of crude oil is concerned not only with the general market in which he operates, but also with the protection of supplies needed to meet his requirements. In every producing area, and in most of the important fields, a number of different companies are purchasing from the producers and competing for the available supplies in the area. If a company is not willing to pay as much as other purchasers, it will soon lose supplies to them and be unable to meet demands.

The influence of normal economic forces on price may be suppressed temporarily by Government price controls; however, the

operation of these economic forces continues during the price control. Their influence on market price is inevitably felt again when controls are removed. The prices set under Government control may deviate so far from what the market would establish as to result in shortages and rationing or black markets. Similar deviations from market prices may affect the rate of growth of demand and supply in a manner that will lead to difficulty in time even without any immediate development of shortages.

Artificial price controls which do not reflect the normal market forces necessarily disturb the developments required in order to keep supply and demand in balance. The continuance of artificial controls over a period of time builds up pressure which sometimes makes necessary large adjustments after the removal of controls. The artificial controls over a period of time builds up pressure which sometimes makes necessary large adjustments after the removal of controls. The artificial price controls of World War II, for example resulted in building up demands which could not continue to be supplied at the controlled prices. Inevitably, the result of a free market brought about the price adjustments necessary to restore a balance between demand and supply after years of subnormal prices. As a result of these adjustments which occurred during the years 1946 and 1947, rapidly increasing demands for petroleum were met with only temporary spot shortages in 1947.

The early postwar adjustment of crude oil prices by the normal market forces was completed in December 1947. In that month, crude oil prices increased 50 cents a barrel to an average level of about $2.60 a barrel. For more than 5 years after that there were no general increases in crude-oil prices. In fact, the average price of crude oil in 1952 was actually slightly less than in 1948.

The operation of the market in determining price levels is illustrated by an experience in 1948. In September 1948, Phillips Petroleum Co. announced an increase in crude-oil prices of 35 cents a barrel. At that time there was a slackening in the rate of growth in demand, a high rate of production and increase in imports, and a rapid accumulation of inventories, and some weakness in product prices. Although a few other purchasers raised their prices to meet the Phillips' price, Humble and other purchasers did not make any change. The interpretation of the market by those who did not raise prices proved correct. By December 1948 the companies which had announced higher prices reduced their prices back to the former levels.

In 1949 there were some downward adjustments in crude oil prices for the country as a whole. For example, Humble reduced the price of heavy gravity crudes by 25 cents a barrel because of the decline in demand and price of residual fuel oil and by 10 cents a barrel for certain coastal crudes because of a decrease in special demands which had previously existed for this type of oil. As a result of such reductions, Humble's average price at the well on the crude it produces decreased from $2.64 a barrel in 1948 to $2.59 a barrel in 1950. Similar changes were made by other purchasers of crude oil, particularly for the heavy crude oils.

In 1950 and 1951, the demand for petroleum again increased very rapidly and another spiral of inflation developed immediately after

the outbreak of hostilities in Korea. From June of 1950 to December 1950 wholesale commodity prices generally increased by 12 percent while crude oil prices remained unchanged. In December 1950 some crude oil price increases were announced in California and it appeared that the strong demand would soon bring about general price increases for the country as a whole.

The Director of Price Stabilization then wired the leading oil companies asking them to hold the line and not to increase prices. We had such a wire. Thus, when price controls on oil were formally placed in effect in January 1951, crude oil prices were frozen at a low level relative to other commodities. Thereafter, during the period of controls—that is, from January 1951 to February of 1953—they were not allowed to reflect the influence of either increasing demand or rising costs. Crude oil price ceilings generally were at or below the levels which had prevailed in 1948 because of the downward adjustments which had occurred in 1949.

Government controls of petroleum prices remained in effect until February 1953. At that time the wholesale price index for all commodities was 109.5, an increase of 6.8 percent over the level of December 1947 and 9.4 percent over the level of June 1950. If the price of crude oil had kept pace with other commodities in the advances following June 1950, it would have increased by nearly 25 cents a barrel. Except for some increases in the prices of heavy crude oils in California made in December 1950, however, crude oil prices were generally the same as in June of 1950 and averaged less than at the end of December 1947, at the time of the last general price increase.

During the period of price controls there were numerous developments which would normally have tended to raise the price of petroleum. These developments included an increase in the price of competitive fuels, such as coal, a continued increase in the demand for petroleum, a slowing down in the expansion of domestic productive capacity, and a very substantial increase in the costs of exploration and production for crude oil.

Domestic demand for petroleum has continued to increase rapidly. It is expected that demand this year will be 30 percent higher than in 1948 and 17 percent higher than in 1950. These increasing demands mean not only that more oil must be found each year to replace production, but also that reserves must continue to be increased if the domestic industry is to be in position to meet part of the additional demands.

Over the last 10 years from 1943, there has been about an increase of approximately 5 percent a year in the demand for crude. We would hope and may expect that this demand will continue to increase at that rate or above or below—we don't know.

Fortunately for consumers, there was some margin of reserve capacity in domestic operations at the time that price controls were imposed. But for the existence of that initial reserve capacity and increasing imports, there might have been some difficulty in meeting all demands. As it was, supplies in California failed to keep pace with demand and some military requirements for the Pacific had to be purchased from the gulf coast instead. Under price controls a slackening in the rate of growth of supply became evident even while demand continued to increase. The National Petroleum Council estimates that crude oil

productive capacity increased between January 1951 and January 1953 by 738,000 barrels daily, or substantially less than the increase of more than 1 million barrels daily in the comparable preceding period from December 1948 to January 1951. Despite an active exploration and drilling program, the number of oil-well completions in 1951 and 1952 was less than in 1950 and only 4 percent more than the number of oil-well completions in 1948 when the demand, as I pointed out above, was substantially lower. The number of oil-well completions was slightly less than 23,500 in 1951 and 1952 compared with 24,430 in 1950 and 22,585 in 1948.

In other words, there were more dry holes drilled as time went on and fewer oil wells, notwithstanding the fact that the total number of wells was not essentially different. The experience, the favorable experience of finding oil had decreased.

In connection with the relation of supply and demand, it should be noted that a reserve capacity of at least 1 million barrels daily in the United States is considered desirable as a matter of national security. This position has been stated repeatedly by the Secretaries of both Defense and Interior.

We have had this question of maintaining reserve productive capacity continuously before us since the close of the war. Before the war we had a reserve productive capacity of something like a million and a quarter barrels, which was the thing that enabled the industry to meet all of the calls upon it during the war. Since that time this question of rebuilding those reserves has been uppermost in the minds of the Government, and has been brought pointedly to our attention, and the industry has been diligently seeking to bring about that reserve capacity.

According to the estimates of the National Petroleum Council as of January 1953, the reserve productive capacity of crude oil in the United States was 914,000 barrels daily, even though there were being imported into the United States 616,000 barrels daily of crude oil and 518,000 barrels daily of products. In view of the possibility that some of the foreign oil now being imported may not be available in case of an emergency, it would appear that domestic productive capacity has not increased as rapidly in recent years as would be desirable from the standpoint of national security.

Another significant force operating on petroleum supplies and prices since December 1947 has been the very substantial increase in costs. This increase in costs was due partly to higher wage rates and higher prices for materials, but more particularly to the greater difficulty and expense involved in exploration and production incident to deeper drilling and the development of more complicated reservoirs with thinner sands.

During the 1930's in this country we brought in a very substantial number of large, thick sand fields. There were very large reserves. The cost of developing those fields was relatively lower than we are confronted with today where we are finding larger numbers of fields, but less large thick sand fields. We are having to go deeper and we are finding thinner sands in which we have to complete the wells, and our costs of testing, drilling, and completing those wells is increasing much more than the general increase in costs, or the decrease in the value of the dollar.

Government statistics show that average hourly earnings of workers in oil and gas production in March 1953, were 31-percent higher than in 1948. The costs of steel and other equipment are also substantially higher than in 1948. In Texas and Louisiana, ad valorem and severance taxes on crude-oil production have increased more than 5 cents a barrel since 1948. These are only some of the factors that have increased costs greatly in recent years.

The principal increase in costs experienced in petroleum production has been in the higher expenditures for exploration and drilling and in the higher unit costs involved in carrying reserve productive capacity. Now, if the industry is to maintain a productive reserve of 1 million barrels of oil which it has had to plow money into the business to develop, it costs money to hold those reserves against producing them currently and realizing currently upon the investment.

The average cost per well completed by Humble in 1952, was $106,500 or 29 percent more than in 1948. A larger proportion of dry holes is being experienced in drilling by industry and Humble. The percent of dry holes drilled by industry increased from 35.9 in 1948 to 41.7 in 1952, with the result that the number of dry holes drilled increased from 14,296 to 19,119. In Humble's case, the proportion of dry holes also increased and the expenditures for dry holes in 1952 of $43,065,000 were 62 percent more than Humble's dry hole expenses in 1948. Exploration costs per barrel were also much higher.

Producing costs have increased not only because of the factors previously mentioned but also because of the large investment and costs involved in carrying reserve productive capacity for national security. I mentioned that. It requires literally billions of dollars to develop this reserve capacity. In the past 5 years, 30 large oil companies have spent $6.6 billion for domestic production facilities, not including large additional sums spent for exploration. Carrying reserve productive capacity increases producing costs because of the smaller production per well, since the operating costs per well per month are relatively constant regardless of the amount of production.

As a result, there has been a very substantial increase in costs of producing oil by comparison with December 1947, June 1950, or the date on which price controls were imposed in January 1951. Even before the removal of price controls, adjustments in ceiling prices had been sought on the basis of increases in costs. Applications had been filed to raise ceiling prices for crue oil produced in Pennsylvania and California and the Independent Petroleum Association of America had applied for the removal of ceiling prices generally. These requests were not granted.

Government price controls of crude oil and petroleum products were removed on February 13, 1953. Shortly after these controls were removed, crude oil prices were increased by 15 cents a barrel in Pennsylvania and by 10 to 50 cents a barrel in California. Product prices were also increased in California at the wholesale and retail levels.

There was no general increase in petroleum prices east of California at the time that price controls were removed. A warm winter had adversely affected demand for heating oils and the inventory position of products generally east of California. In February, an increase in gasoline prices by Socony-Vacuum, as Mr. Willetts explained yes-

terday, on the east coast, was not met by competitors and had to be abandoned.

I think it is important to note there that in the competitive process, Socony-Vacuum interpreted the market conditions as warranting a price increase. The other members of the industry in that area reached a different conclusion. They interpreted the market on a different basis. The opinion of the others prevailed, and Socony-Vacuum had to abandon its advance in price and go back to the level before the increase.

The adverse effect of the warm winter was temporary, however. In March and the second quarter, demand became much stronger with substantial gains over the preceding year. In May, it is estimated that demand was nearly 11 percent higher than a year ago. Supplies remained at high levels but the improvement in demand, considering seasonal factors, resulted in the stronger market. Early in June, gasoline prices were again increased on the east coast by this same marketer. This time when the demand was strong, other marketers in the area also raised their prices.

It was in this situation that the Phillips Petroleum Co. announced a flat price increase of 25 cents a barrel for the crude oils purchased by it effective June 15, 1953. This advance was no more than might have been expected to occur in December 1950 which was prevented by the appeal from the Price Stabilizer and prevented later by the price controls. It was far short of covering the increase in costs that has been experienced in producing crude oil since the preceding change of December 1947.

Humble Oil & Refining Co. had for some time been considering what price adjustments should be made generally and among the various grades of crude oil purchases, and what variations, if any, should be made for the prices of the various grades of crude oil which it purchased. It appeared that the market situation at this time probably would not permit or justify an increase that would fully reflect these increased costs that we had experienced.

Humble had concluded that if demand continued to show a strong gain, particularly for gasoline, some upward adjustment in prices would probably occur. Analysis of changes in technology in recent years and in product prices showed that the relative values of various grades of crude oil had changed. The increasing use of catalytic cracking, for example, has affected the yields of products from different crudes and modified their relative values to refineries.

I might explain that by saying that some of the lower gravity crudes were producing greater quantities of gasoline as a result of the catalytic cracking of the gas oils from them, which had the effect of making a barrel of that oil have more of the high value fractions. There was a yield of greater quantities of gasoline which would improve the relative value of those crudes as against some other crudes that did not have a similar increase.

The shifts of product prices, principally a reduction in the price of residual fuel oil relative to the price of gasoline and other light products, also affected the relative values of crudes. These changes tended to make heavy crude oils relatively less valuable to refineries because of their high yields of residual fuel oil than the higher gravity crude oils.

As a purchaser of crude oils from some 24,000 wells scattered over Texas and New Mexico, we were quite anxious in the event of any price increase to tend as far as we could to equalize these values of crudes that we bought. We reached a conclusion that it was not desirable to make a flat increase across the board.

Humble's analysis of the changes in the values of crude oil since the last general price increase led it to the conclusion that the light crude oils would have to be raised 15 to 25 cents a barrel more than heavy crude oils in order to make them of relatively equal attractiveness to refiners. In view of the evidence of a strengthening market early in June, it decided to make an advance in crude oil prices. When Phillips announced a general price increase of 25 cents a barrel for all grades of crude oil, Humble decided on the basis of its earlier studies to post prices in line with its interpretation to relative crude oil values. Accordingly, effective June 15, Humble announced an increase in prices averaging 25 cents a barrel, but with increases varying from 10 to 35 cents for different grades of crude oil being purchased. The reasons for these new price postings were stated in our press release accompanying the announcement as follows—I am quoting from the press release:

Crude oil prices in Texas and New Mexico have not advanced generally since December 1947. These prices today average less than in 1948. Meanwhile, wholesale commodity prices generally have increased substantially. Rates of pay and costs of materials used in oil production have increased more than prices generally; and combined costs of finding, developing, and producing oil have advanced even more. These facts mean that crude oil prices have not reflected the decline in the value of the dollar nor any part of the large increase in costs that has occurred in the past 5 years.

Petroleum demand now is more than 25 percent above that of 1948 and still gaining. It is necessary for the industry not only to meet this demand but also to provide reserve capacity for national security. World War II demonstrated the strategic importance of oil to victory and the value of reserve producing capacity for national security. Subsequent developments continue to emphasize the significance of oil for national defense. The fact that domestic producers are called upon to carry substantial reserve capacity for reasons of national security increases the investment and operating costs per barrel produced.

Since the last general increase in crude oil prices, there have been many developments in the technology of oil refining which influence the relative yields of products from different crude oils. Also, there have been some changes up and down in the price of refined products. These changes have affected the relative values of the several grades of crude oil produced and have brought about substantial price inequalities.

Considering all of these matters, Humble Oil & Refining Co. has decided to establish a new schedule of posted prices for crude oil purchased by it. Accordingly, it has published Price Bulletin No. 204, effective 7 a. m., June 15, 1953. While the average increases in prices amounts to about 25 cents per barrel, adjustments between grades vary. The changes for the principal grades of crude are as set forth below:

Low Cold Test Coastal, Hastings, and Mirando grades increased 35 cents a barrel;

Anahuac, Refugio, Sweden, Imogene, Conroe, and Tomball grades increased 30 cents a barrel;

East Texas field, East Central Texas, West Central Texas, West Texas and New Mexico, Panhandle, Salt Flat, and Van grades increased 25 cents a barrel;

Hawkins-Talco and Pearsall grades increased 10 cents a barrel;

Yates field crude, posted on the West Texas gravity schedule in the new bulletin, increased 22 cents a barrel on 30° gravity crude oil.

That is the end of the quotation.

Our interpretation of the market forces affecting crude oil prices led us to the action we announced on June 15. It considered fully the supply and demand conditions prevailing at the time. But for the effect of reserve productive capacity and increasing imports, the crude oil price increase would have been larger. The striking fact is not that an increase in crude oil prices occurred; the striking fact is that the increase came so late and was much less than the change that has occurred in costs since the preceding advance of December 1947. Humble has been aware of the forces affecting crude oil cost and markets for some time. In recent years it has repeatedly called attention to increasing replacement and producing costs for crude oil. In its latest annual report, issued March 31, 1953, the following statement was made, and I am quoting from our annual report:

> Crude oil reserves are being replaced and expanded at substantially higher cost. It is believed, however, that good business and the national interest make advisable continued investments in crude oil and natural gas reserves. Petroleum has come to be our most important source of energy in both peace and war; of paramount importance in transportation; and vital also as strategic material for special uses in national defense. As a result of the clear demonstration in World War II of the value of reserve oil producing capacity, there is a growing feeling that a substantial reserve producing capacity is necessary for national security. Through large capital expenditures since the war, the industry has built up such capacity. To establish and maintain it adds to carrying charges on reserves and increases the cost per barrel of oil produced currently.
>
> The operation of a free market for so important a product as petroleum which for some years has undersold competitive fuels, should result in time in prices adequate to offset the higher costs incurred. Otherwise, there will not be sufficient incentive for the high rate of exploration and drilling needed to provide adequate domestic capacity.

The CHAIRMAN. With the completion of that statement, Mr. Baker, is it your desire now to proceed along the lines you indicated, when you opened your testimony?

Mr. BAKER. I have not concluded the statement, Mr. Chairman. There is a sheet here you will see on product changes. If I may I would like to call attention to that.

Humble announced product price increases on June 23, and the crude price was on June 15, after it was clear that a new level of crude oil prices had been established in the market generally. The following changes were made at that time.

(1) General increases were made of 0.7 cent per gallon in motor gasolina tank-wagon prices, 0.5 cent per gallon in distillate fuel oil, and 25 cents a barrel in residual fuel oil. These increases on the normal product yield from crude oil refined on the gulf coast are approximately equivalent to the average increase in cost to the refiner of about 25 cents a barrel for crude oil. Several marketers announced general increases of 1 cent a gallon in motor gasoline tank-wagon prices, making prices to their dealers 0.3 cent a gallon higher than Humble's at many points.

(2) Tank-wagon prices of gasoline were increased additionally by 0.1 cent to 0.5 cent at certain points in Texas to accommodate in part for higher transportation costs from points of supply to these locations.

(3) The retail price at the 307 stations operated by Humble was increased by 1 cent a gallon, thereby raising the spread between retail

and tank-wagon price at these stations by 0.3 cent a gallon to cover increased costs experienced at these outlets, principally as a result of higher wage rates. About half of this increase of 0.3 cent a gallon will accrue to Humble's agents who operate 303 of these stations on commission. The retail margin at Humble-operated stations is now 5.3 cents a gallon.

Product price changes made took into account the increased cost of crude oil to refineries, varying transportation costs to certain points in Texas, and increased cost of operations in retail distribution of gasoline.

Now, Mr. Chairman, if I may, I would like to continue my statement with regard to the subject of conservation and particularly in relation to this question of market demand which has been a subject of inquiry here and was the subject of testimony by Mr. Paul Hadlick in which he suggested that the use of market demand and the limitation of crude-oil production by certain States was very bad and should be abandoned, and in which he suggested that the Bureau of Mines should be prohibited from making the estimates of market demand of crude oil, the repeal of the Connally Hot Oil Act, and the withdrawal of congressional consent to the interstate oil compact. These are matters of very vital significance to the petroleum industry and to the Nation.

To do what Mr. Hadlick suggests would undo the work of more than 30 years by the States and in the petroleum industry and by the Congress of the United States, and I would like to address myself to that for a time if I may.

The CHAIRMAN. You may proceed.

Mr. BAKER. In this connection I would say that I happen to have had a very considerable experience in this field. I became attorney for the Humble Co. in 1919, and was dealing with these problems from a legal standpoint and as adviser to the president during the periods of shortages in the early twenties, and I was drawn into this matter very definitely with the message of President Coolidge in 1924 and the establishment of the Federal Oil Conservation Board.

I have followed the work as an attorney from that time until 1937, when I was transferred into administrative work, and I have followed it as an executive of the company and a member of the industry with great interest since that time.

I have had to do, as a member of industry, with the question of the enactment of conservation laws in the States in which we operate, and also in other States in the country. That is because the conservation practices in one State affect the operations in another State.

I assisted in the drafting of the conservation laws of Texas and New Mexico, Alabama, Georgia, Florida, and more recently in Arizona, and followed the enactments in Arkansas and in Louisiana. It has been a matter of very vital concern in our business and I have followed it with interest during all of these years.

I recall, Mr. Chairman, being here at the time of the Cole committee hearings in 1934, as an adviser to Mr. W. S. Farish, who testified at that time. I was in the work when the Cole committee made its tours through Texas at that time.

It has been a matter with which I have been rather intimately acquainted.

Now, the petroleum industry has been a progressive industry. It has engaged actively in research and the employment of good engineering practices in the development of the business, the application of science and engineering to its processes, by which it has supplied the Nation with its needs and has given a constantly improving product at reasonable prices through the years. I don't believe that there is any achievement of the petroleum industry, progressive as it has been, that measures up to the achievement of the petroleum industry in this field of conservation, as it has been worked out with the legislatures and the conservation agencies of the States and with the assistance rendered by the Federal Government through the work of the Bureau of Mines and through the enforcement of the State laws by the Connally Act and through the encouragement toward the exchange of conservation knowledge and good engineering practices in the interstate oil compact, which has been authorized by the Congress.

I would like to point out some of the results of that effort by a discussion of the development of conservation and its present status. The petroleum industry, operating under the conservation policies and procedures of the States and under the highly competitive conditions in a free economy, has provided a relatively cheap fuel, in quan ties meeting a greatly expanding demand, and has met the needs of the Nation both in peace and in war.

I would like to illustrate the manner in which the petroleum industry has performed in this respect by a comparison of the growth of the energy supplies from the petroleum industry as compared with the coal industry.

In 1918, the petroleum industry, in the form of oil and gas, was supplying 14½ percent of the total energy consumed in the United States, and coal was supplying 82 percent. Since that time, the percentage of supply by coal has constantly decreased until in 1952 the coal was supplying 32.4 percent of the fuel of the Nation against 82 percent in 1918.

The petroleum industry in the form of oil and gas in 1952 was supplying 63.3 percent, an increase from 14.5 to 63.3 percent.

In 1919, coal was supplying 16,285 trillion B. t. u.'s; today, or 1952, it was supplying only 12,170 trillion B. t. u.'s.

Oil and gas, or the petroleum industry, was supplying 2,866 trillion B. t. u.'s in 1918, and 23,700 trillion B. t.u.'s in 1952. In other words, the petroleum industry has supplied all of the increase in the fuel requirements of this Nation since 1918, and more than all because coal is supplying approximately 20 to 25 percent less actual B. t. u.'s than it was in 1918.

I think, considering the fact that we have large coal supplies in this country, that is a great tribute to the efficiency and low cost with which the petroleum industry has performed its service to the American public in that intervening period.

I think it might be interesting, particularly in view of the inquiries yesterday, as to what has happened to the price of petroleum products during that period of time. I want to give figures here excluding the tax because that would be the only basis on which we could have a relative picture.

In 1920, the service station gasoline price was 29.74 cents a gallon. In 1952, less tax, this service station price was 20.24 cents per gallon, or

about 9½ cents a gallon less than the price in 1920. I am talking now in terms of current dollars, not a constant dollar.

The Government has used 1926 as a base for a long period of time in the index figures on consumer prices. In 1926, the service-station price on gasoline was 20.97 cents, or slightly higher than the price in 1952. During the depression the price sagged. The lowest price we have had during any year, during the period I am talking about, of 32 years, was in 1933, when the price was 12.41 cents per gallon.

Now, what is the relationship between these on the basis of a constant dollar, that is, applying the consumers price index of 1926 at a hundred. With 1926 as a hundred, the present consumers price index is 150. In other words, prices have increased in that period 50 percent. The lowest price, I said, was in 1933, which was 12.41 cents. The price in 1952 was 63 percent higher. If we take the index for 1933, instead of being a hundred it was 73, so that the prices since 1933 generally, consumers prices, have increased more than a hundred percent, while the price of gasoline has increased 63 percent. If you take the year 1943, 10 years ago, which has been a figure being used here, the price was 14.56 cents, which was 40 percent under the 1952 price. The index for 1943 was 97.9, so there has been a 50-percent increase in consumers prices since 1943, and a 40-percent increase in the price of gasoline since that time.

So actually, on the basis of a constant dollar, our gasoline is being sold today 10 cents a gallon less than it was being sold in 1920, and we would be paying 30 cents a gallon today if we applied the 1926 index.

Now, in the meantime, the gasoline that we are producing today delivers 50 percent more power than the gasoline we produced in 1926, the period under consideration.

If you take that and look at it in terms of what a wage earner can buy in gasoline, our figures are also very revealing. The last price increase was made in December 1947, and therefore was really operative during the year 1948. The relationship between the earnings of an employee in manufacturing per hour and the price of gasoline is an interesting one.

In 1948 the worker in manufacturing could buy 10 gallons of gasoline on a basis of 1.447 hours of work. In 1952 he could buy 10 gallons at 1.2 hours of work. So he can buy more gasoline on the basis or an hour's work than he could in 1948. It took him 1.92 hours to buy a barrel of oil in 1948, whereas he can buy it now for 1½ hours.

The CHAIRMAN. How many hours of work would it take under the increased price?

Mr. BAKER. But he can buy substantially more gasoline under the 1952 prices.

The CHAIRMAN. How many hours of work would it take under the increased price?

Mr. BAKER. Under the increased price of 1 cent, he can still buy more than he could before.

The CHAIRMAN. That is encouraging.

Mr. BAKER. The point I want to make about this whole thing is that from any standpoint you look at it, the petroleum industry has continued to provide low-cost products of improving quality.

The conservation effort, as it has been administered by the States, and as it has been developed by the engineering practices of the oil in-

dustry, has greatly reduced costs by reducing the number of wells that have to be drilled and by reducing the investment in pumping equipment and other means of artificial lift, and in storage tanks, and has resulted in greater supplies of crude oil and has saved tremendous amounts of oil and gas from waste. In addition to that, it has served to protect the correlative rights of all of the people operating in oilfields, and has given the independent producer, the small producer, the full opportunity to recover his fair share of the oil from the reservoir, and to receive for it complete access to the markets at the same prices that others have received.

In addition, it has provided these reserve producing capacities for our national security. I would like to take a minute to give a background of the evolution of this system of the conservation in which we now find ourselves so as to make clear the importance of the methods of conservation that are being employed, including the principle of market demand.

The CHAIRMAN. How long will that take?

Mr. BAKER. I would say about 20 minutes for the whole thing, for the discussion of the principle.

The CHAIRMAN. Of course, all of this is very interesting from the standpoint of the committee's inquiry into the petroleum industry. But the point that this committee is particularly interested in at the present time is what occasioned the 25-cents-a-barrel increase that brought the complaints that caused this committee to conduct the hearings that it is now doing. That is the thing we are interested in in this committee. I have no objection to your placing in the record all of that which you have in mind. But I think we have to get down to the point of why we are here. That evolution which you speak of is very interesting.

Mr. BAKER. The committee has heard testimony of Mr. Hadlick——

The CHAIRMAN. Who did you say?

Mr. BAKER. I say the committee has heard the testimony of Mr. Hadlick in which he has recommended to the committee, and has undertaken to show that this whole system is wrong, and that the Congress ought to repeal a substantial part of the legislation relating to the oil industry, and which does have a very definite relationship to the question of price and the continuing prices that the public will have. It is our view that this conservation method has resulted in the long run in substantially lower prices to the American public, on the average, and that if carried out will continue to result in lower prices.

The CHAIRMAN. The point that I am making is that we have a specific inquiry that we are making at this time. I do not wish to preclude you from making any extended argument that you wish, even though it applies to Mr. Hadlick, who is, after all, only one witness before this committee. But to go into this to the extent that you are seems to me is taking an undue length of time considering the primary purpose that we are here.

Mr. THORNBERRY. Mr. Chairman, may I interpose at this time? I was very much concerned the other day when Mr. Hadlick consumed the greater portion of the day to make considerable charges about conservation policies of the respective States as authorized

by law. As one member of the committee I think I would be very much interested in hearing Mr. Baker respond to the testimony.

The CHAIRMAN. Very well, if the committee is willing to sit and listen. My experience has been that after the morning session so many members do not appear in the afternoon. I am anxious that we shall hear all that is pertinent. If the committee considers this pertinent, we will take all the time that is necessary.

I will ask the committee that they attend the session to make sure they hear it all.

You may proceed and take all the time you want.

Mr. SCHENCK. Mr. Chairman, it does make some situations difficult, however, when the committee's sessions are held during the sessions of the House, when we are obligated to be on the floor to take care of our official business.

The CHAIRMAN. I appreciate that, and the chairman always tries to keep in touch with what is taking place on the floor. By the number on the floor, or the few that are on the floor at times, and the few that are in the committee, I wonder where the real session is being held. Today I do not think the business before the House is of such great importance that it would preclude us from holding a session this afternoon. That is a matter for the committee to decide.

Mr. SCHENCK. It is my understanding, Mr. Chairman, that this afternoon some of the important legislation to be considered has to do with schools and school finance. That is important in each district.

The CHAIRMAN. I understand 1 hour of general debate will be held. You may proceed.

Mr. BAKER. The movement which has evolved into this present-day practice of petroleum conservation is only about 30 years old. It began after the close of World War I, when the automobile began to assume an important place in our daily lives. The growth of the automotive industry led to sharp decreases in demand for gasoline and crude oil. Responding to this need, the oil industry drew into its organization the necessary technical staffs and within a short time substituted scientific methods for the old haphazard methods of exploration.

Rapid progress was made. Within a few years oil production greatly increased and soon the open-flow capacity of the wells was greatly in excess of the demands of the market.

Mr. HALE. Mr. Chairman, it is not clear to me what this is that the gentleman is reading. What are you reading from?

Mr. BAKER. I am sorry, I didn't hear you.

Mr. HALE. What are you reading from?

Mr. BAKER. I am reading from a speech that I made to a section of the American Petroleum Institute.

Mr. HALE. Is it your own language, or are you quoting from someone else?

Mr. BAKER. At the time the Wherry committee report was presented, of which Mr. Hadlick was then special counsel, practically the same recommendations were made in the Wherry committee report. We made a reappraisal of this whole question of conservation and conservation practices. I was invited to address the production section of the American Petroleum Institute upon this question. I have before me a copy of that address and am using it as a reference in the remarks that I am going to make.

Mr. HALE. I did not want to go into all of that detail. I wanted to be sure whose language you were using, whether you were quoting somebody else's or using your own.

Mr. HESELTON. When you say we appraise it, do you mean Humble Oil appraised it?

Mr. BAKER. That is the Humble organization, its staff, its engineers, its operators, and lawyers, our group. In these years, the industry was characterized by recurring feasts and famines. Many were fearful that if the wasteful situation incident to open-flow production continued, we would soon run out of oil. In fact, both the industry and the Government soon came to recognize that something had to be done about this condition which carried with it the danger of prematurely exhausting our limited petroleum resources.

In 1924 President Coolidge took notice of these problems by creating the Federal Oil Conservation Board, which was composed of the Secretaries of War, Navy, and Interior and Commerce, and by calling on the industry to join the Government in working out a practical program of conservation. About the same time, studies of conservation were carried out by the industry's committees, particularly by a committee of the American Petroleum Institute known as the Marland committee.

In order to understand the conditions which existed at the time, it is necessary to recall a fundamental difference between oil and gas and such other forms of property as minerals, corps, or manufactured products.

Reserves of stocks of these materials can be retained in possession, or can be produced or sold in accordance with the wishes of the owner. Oil, on the other hand, is a fugacious substance. When a well is drilled into a pool and is produced, the resultant lowering of the subsurface pressure in the oil-bearing formation causes oil and gas to flow to that well. This flow is not confined to the region underlying the area owned or leased by the owner of the well, but results in subsurface drainage of oil from tracts owned by others.

Thus, a landowner had to produce the oil from the wells drilled on his land in order to keep from losing his oil to his neighbor. In the absence of an agreement between the owners of a pool or of any other method of enforcing ratable taking, the inevitable result was a mad drilling race in each new pool, in that the operator who could first get the most from the wells drilled could drain a proportionately larger part of the common underground supply.

In order to protect one's property in this situation, it was necessary to drill offset wells immediately and to drill each tract to the same density as the most densely adjacent tract. In no other manner can an operator assure himself of a reasonable opportunity to participate in the production in anything like the ratio which the oil in his tract bore to the entire pool. It is obvious that under such a system it was equally necessary to produce each well to capacity. No thought could be given to the control of gas or water production. Underground waste was inevitable.

Perhaps even more serious than the underground waste was the fact that under this situation it was impossible to build up and retain oil reserves in the ground. Each new major pool produced a flood of oil, and was quickly exhausted, whether the demand for the oil existed

or not. Continuity of supply was contingent on the fortuitous discovery of new pools of adequate size to meet demands and no backlog existed or could be provided to tide over the leaner periods between discoveries or to meet emergencies. Prices fluctuated violently and development costs were excessive. The problem as it then existed might be phrased thus:

In view of the tendencies toward waste, created by the competitive race to capture oil, the excessive costs under open-flow methods and the legal difficulties, could some means be devised to bring about real conservation? Was there a way in which these problems could be met so as to secure maximum oil recoveries and at the same time satisfy property rights and the equities of the various landowners?

At that time, very little was known of the nature and characteristic of oil reservoirs, reservoir pressures, and operating fields so as to utilize the reservoir energy effectively. Relatively little research on those subjects had been undertaken. It was not until it was understood that gas and water are essential both to the underground pressure required to cause oil to flow to the well bore and to displace oil in the porous formations in which it naturally occurs, that progress was possible in conservation underground. Once this fact was understood, it became obvious that increased oil recovery might be obtained if it were possible to control these forces as to displace the oil more thoroughly from the reservoir. This situation was a very great technical challenge, and it was attacked by the engineers and the geologists, research groups in the industry, and the Bureau of Mines, and by others. These studies led to the accumulation of a great knowledge in this field; how to utilize the energy associated with gas and water underlying the oil and how to produce it more efficiently. It was determined that under wide-open production oil was produced almost entirely by the energy of the gas dissolved in oil or associated with it in the reservoirs. The quantity of gas in any reservoir was limited. It escaped readily with the oil or was deliberately produced from gas caps and was quickly dissipated when the gas was exhausted. Oil production ceased through lack of an agency to maintain reservoir pressure and to displace the remaining oil, except that it might be pumped by artificial methods.

It followed that a remedy must lie in avoiding this premature dissipation of the gas energy of the reservoir, and the retention of it in the reservoir as long as possible. It was found also that water, when available in sufficient volume to encroach naturally into an oil reservoir, is frequently more effective than gas in the displacing of the oil. Unusually high recoveries were obtained in some fields where water rather than gas was the principal agency in flushing the oil.

From these factual observations, based on recoveries from depleted oilfields, from coring, from secondary recovery operations and other approaches from actual experience in the operation of the reservoirs under control conditions, and from extensive research, there emerged a clear picture of the oil reservoir mechanics, and the manner of operation required for efficient recovery. It was demonstrated that through properly controlled production a reservoir might be made to yield economically a higher recovery of oil. In addition it came to be understood that production in excess of the demand of the market results in physical waste, and that the drilling of unnecessary wells

piles up capital investments resulting in higher producing cost and likewise leading to physical waste.

These were matters of real consequence to the industry and to the American public. Gradually operators came to be convinced that it was to their economic interest to produce oil and gas fields under conservation practices. However, agreements among operators for improved practices were blocked by fear of prosecution under the antitrust law. Also, in many fields there were some operators who were so intent on pursuing recovery that they would not be willing to enter into any agreement.

Accordingly, there had to be some means provided to enable the man who wanted to produce the oil in an efficient, engineering way to do so, and yet recover his fair share of the oil and retain these reservoir energies. The conclusion thus reached called for the enactment of conservation laws by these various States and the exercise of the police power of the State.

In the formulation of these laws and in their early administration, the whole group of intelligence in the industry and in State government was brought to bear upon it. It was tried out in the courts through trial and error, and by legislative enactment, and the work of administrative agencies, until a workable procedure might be evolved. The broad objective of this system is to prevent the waste of both oil and gas, both underground and above ground, in such a way as to protect the correlative rights of each owner of property in the reservoir, so that he could get his fair share of the oil in the reservoir.

State statutes defining and prohibiting waste were passed and the conservation agencies began their administration.

The technical aspects of this thing were twofold: First, they wanted to use the displacement agent, whether oil or water, in such a way that it could be conserved, to push the oil out of the reservoir instead of dissipate it. Second, the displacement to be caused to proceed in a manner that will most thoroughly flush the reservoir of its oil content. And then also to prevent above-ground waste by eliminating unnecessary storage of oil above ground.

This led to numerous regulations governing the location spacing, drilling and operation and abandonment of wells, the regulation of gas-oil ratios, and water-oil ratios, and the physical aspects of well drilling, location, and completion. However, the most important regulation, without which most of the others would accomplish little, is the restriction of the rate of production from the well, both individual wells and from the pool. Control of production rate was absolutely essential to the conservation of this reservoir energy and to the efficient displacement of the oil and to the protection of these correlative rights. Normally this limitation of production is based solely on the physical characteristics of the reservoir, and a factual determination of the maximum rate at which it can be produced efficiently. That is to say you try to determine what is the maximum efficient rate at which oil can be produced from this reservoir so that the gas will not be wasted, so that the water will not encroach as an irregular table and trap off the oil in the ground so it cannot be recovered.

By experience and by study of the underground conditions, they have come to be able to determine for most fields what is that maximum

efficient rate, and to control the production to the maximum efficient rate.

Mr. HESELTON. Did you say normally?

Mr. BAKER. Yes, sir.

Mr. HESELTON. I thought so.

Mr. BAKER. I come to the cases where it is not done later. I may say this at that point, Mr. Heselton: If you have a reserve productive capacity that is very substantially higher than your needs, and you want to preserve that reserve productive capacity for use in war, it is important that it be held in the ground under favorable conditions for its recovery later. However, when the total demand for oil from a State is less than the efficient producing capacity, it then becomes necessary in order to prevent waste, to impose a still further restriction to limit the total production to market demand. The reason for this latter restriction I want to discuss under the subject of market demand. Thus the conservation system, which has evolved as a waste prevention measure by the States to achieve maximum ultimate recovery. Its most important essential thing is the limitation of the production of each field to its maximum efficient rate, or to the market demand, whichever is lower, and the allocation of the production so determined among the several properties in such manner as to enable each owner to recover his fair share of the oil.

The successful carrying out of the conservation program has been a cooperative process. It has involved the development and sharing of increasing technical knowledge and the combined efforts of many people, many agencies and persons. While as stated, the program rests on sound engineering and the wise exercise of the police powers of the State, the Federal Government has also played a cooperative role. The Interstate Oil Compact Commission, created by an agreement among the oil-producing States, and approved by Congress, does an important educational work in fostering conservation. It disseminates widely knowledge and information on good engineering practices and on good administrative practices by the conservation agencies of the States. The Connally Hot Oil Act, a Federal statute, assists the States in enforcing their laws by prohibiting the movement of oil produced in violation of the State regulations in interstate commerce. That act was one of the very important agencies enabling the industry to get squared away on the conservation effort in East Texas, when it was such an upsetting factor.

The Bureau of Mines, by publishing estimates of demand, has been of very real aid to the conservation agencies of the States in undertaking to ascertain what that demand actually is. This system, as I said at the beginning, has evolved over a period of some 30 years in an effort on the part of the States and the Federal Government, and the American Petroleum Industry, to conserve these important natural resources and make them available to the American public as and when needed to meet their civilian requirements and the necessities of war.

I believe that a detailed examination of the methods and procedures used are convincing to the mind that an outstanding job has been done, and that the industry has performed well its function and its service to the American people.

I would like to discuss this question of market demand because it seems to be generally misunderstood and is the occasion for consid-

erable criticism, particularly of the Railroad Commission of Texas in the administration of the conservation laws of that State.

In order to appreciate this phase of the regulation by which you limit production to the market demand where the demand is less than the amount that can be produced at maximum efficient rates, from the various reservoirs, it is necessary to consider the background of the situation from which this need arose. During the 1920's, partly as a result of the introduction of geophysical techniques discoveries added tremendously to our oil reserves. During the 6-year period from 1926 through 1931, over 14 billion barrels of oil were discovered, and reserves increased 9 billion barrels. The potential flood of oil from such fields as Yates, Hendricks, and Panhandle, Hobbs, Oklahoma City, Van, and finally east Texas, was so great that even if held below their maximum efficient rates, these fields could produce far more oil than was currently required or could be consumed by our market.

The east Texas field alone could produce well over a million barrels a day. Limitation of production to market demand was an outgrowth of that surplus. The situation could not be dealt with in any other fashion. Had it not been invoked, some fields would have been closed down. Stripper wells would have been abandoned by the thousands. Unratable taking causing hardship and waste would have resulted, and the entire system of conservation then actively developing would have been in serious danger of collapse.

In spite of many mistakes, and in spite of the difficulties encountered, the progress that has been made is really outstanding. You have only to contrast the situation at the east Texas field and many of our other large fields which now produce over a longer period under their own reservoir power in contrast to the large fields that were brought in before which were produced at capacity open-flow rates, thus dissipating the reservoir energy, and leaving a very substantial part of the oil in the ground, to realize that this is a matter of very real consequence.

The real questions that you get into in considering this market demand are: Why is it necessary to restrict production to market demand? I know some of the members of this committee have had that in mind in connection with some of their questions. And what bearing does it have on physical waste? And is it in the public interest to restrict the production to market demand?

The basic reason for limiting production to market demand is that to prevent physical waste it is necessary, concurrently, to provide a system of ratable taking. From bitter experience developed over years of trial and error, it has been demonstrated that under conditions when the demand for oil is less than that which can be produced at maximum efficient rates, a conservation agency cannot bring about ratable taking unless it has the authority to limit production to the demand.

Now, the reason for that ought to be fairly obvious. Market demand means simply the current consumptive demand. It is the oil that the purchasers are willing to buy. If the allowable production from a pool exceeds that which the purchasers are willing to take, the burden of assuring ratable takings and protecting correlative rights is shifted from the conservation agency to the purchasers.

I would like to use just a simple case to illustrate and bring home what is really involved in this procedure. Because of the reduction of demand, the principal purchasers of oil in one of the fields in north Texas, in 1938, began refusing to make connections to new leases, but continued to run oil from the wells on the leases to which they already had connections. The allowable production was approximately 21,500 barrels a day, and the oil actually being purchased by purchasing companies was about 3,000 barrels a day less. As a result, with the drilling program in operation, the number of unconnected wells increased, and by August three purchasing companies prorated their purchases and took substantially less than the allowable from the wells to which they were connected, including their own. By October, in addition to the unratable production incident to a large number of unconnected wells in the field, they had this system of prorating. One company was taking a hundred percent of the allowable, 2 companies were taking 80 percent of the allowable, and 1 was taking 65 percent of the allowable, and a great number of wells were wholly unconnected and had no participation in the market in any way.

Now, this situation resulted in two things: It resulted in the small producer without markets have no outlet, and it resulted in some producers recovering the oil from other producers by draining it from their land into the wells that were being produced at a higher rate. It also led to the trapping off of oil in the sands and the waste of oil underground which could not be recovered.

I was interested, Mr. Heselton, in your question yesterday about what would happen if the Railroad Commission of Texas had not cut the allowable but had permitted all oil within the reserve-producing capacity to be produced.

Today, as a part of the effort of the industry to secure this million barrels of reserve-producing capacity for national defense, we have in Texas the ability to produce within maximum efficient rates several hundred thousand barrels a day of oil beyond what the market will absorb.

If the Railroad Commission of Texas were to raise the allowable in Texas by, we will say, 400,000 barrels in its order for the month of August, what would be the result? That is the question that was asked.

The result would be substantially this: that the purchasing companies would not have a need for that oil and could not take it. They would have no place where they could move it. It would result that some would produce the allowable and store it. Some wells would be shut in. Many of the purchasers would have to put in purchaser proration in certain fields, and some would be taking oil away in varying amounts, 25, 50, 75, 80, or 100 percent, depending upon their requirements.

The result would be a situation vastly greater in ill effects than the situation which I described here in the north Texas field. We would have a chaotic situation of unratable taking and underground waste. But, by the railroad commission restricting it to the market demand under these conditions, all wells are connected by pipeline to markets and we still have the fields being produced ratably and without waste.

Because oil and gas do not remain confined underground by lease boundaries, unratable takings result, inevitably, in the drainage of oil

and gas from one property to another, thus, correlative rights cannot be protected under such conditions.

In spite of efforts by purchasers to be fair, inequities result. It is not the major producer who is usually hurt by this condition. Rather, it is the independent producer, usually the one with a few wells who has no pipeline and no alternative market, if the purchaser to whom he is connected is unable to take his allowed production. Thus, restriction of production to market demand is essential to protect the small, independent producer, to assure the protection of his correlative rights. It is a system which takes from the purchasers the allocation of production, within pools and among pools, and places it where the responsibility properly belongs—in the hands of the State conservation agency.

Under the conditions when the allowed production exceeds the demand, the producer without a connection or with a connection to a purchaser who is unable to take the permitted production, suffers drainage to the leases of those more favorably situated. This causes irregular and improperly distributed withdrawal, resulting in irregular encroachment of water and gas and inefficient displacement of oil and gas from the reservoir, and this is physical waste. Conditions resulting from unratable taking, therefore, results directly in underground waste.

I think I have gone far enough, Mr. Chairman, with the description of this matter of regulation to market demand to show the necessity in any conservation program of dealing with this problem in this way and also as an essential matter to the maintenance of any kind of a reserve productive capacity to enable us to meet the emergencies of war.

Congressman Thornberry, I am sure, from his residence in Austin, and his acquaintance with many of the extremely unfortunate situations that we have had develop in that area, which is producing such a substantial part of our production, and which has such a substantial part of our reserves, realizes the importance of this point.

I would like to say, too, that the matter of regulating to market demand is not always an easy one. It is difficult for the conservation agency always to determine what is the actual market demand. I may say this, that I think the Railroad Commission of Texas, in recent years, has done a very remarkable job in actually determining what the market demand is and actually establishing its production rates at near that.

Their performance from month to month in this regard has been very good. For example, in the year 1951, the allowable in Texas, while they varied month by month a little from the market demand, actually were something like 10,000 barrels a day above the actual market demand, which is really remarkable as an achievement.

In 1952, while from month to month they varied, sometimes above and usually above, and sometimes below, they were within 29,000 barrels a day of actual market demand over the year in fixing the rate of production, in an attempt to fix their rate of production at market demand.

I think it should be understood that the allowable production fixed by the commission is higher than the actual production from the leases. That comes about from a number of occurrences. In the first place,

wells are worked over. Operators run into physical difficulties. Some wells don't actually make their allowables. Actual production is always below the allowable. At leases go down, they are not made up by other leases in a field, and that leads to shortages, and the allowable is deliberately fixed at such a figure as will in the commission's judgment give an actual production of what they think the demand will be. During the first 6 months of 1953 the actual production has been a little under the actual demand, by 21,000 barrels a day. But this is a natural thing under the trial-and-error method, and as an offset to the accumulation in the preceding year, the preceding 2 years in fact, when the allowable was a little bit above the actual demand.

Actually, during the first 6 months of 1953 the Railroad Commission's allowables in Texas have been 21,000 barrels a day below the actual demand. That is pretty accurate as a piece of work on the whole.

I would like to conclude these discussions by saying that it must be clear, of course, that the regulation of production to market demand does have an influence on price. The regulation to maximum efficient rates has an influence on price, also. We must recognize that. The regulation to market demand has had the effect and the whole conservation effort has had the effect, over a period of years, of lowering costs and, therefore, lowering price. It has had the effect of stabilizing the oil industry, lowering the costs of producing oil, and, therefore, has been a benefit to the American public from the standpoint of price as well as from the standpoint of steady, continuous supplies to meet the increasing demands and to meet the national welfare.

I want to point out that limitation to maximum efficient rates and limitations to market demand has never been a price fixing device. It does not operate in that way. All you have to do is to look at the price changes that have occurred since market demand began to be employed in the early thirties to see the variations in price that have come about over that period of time. The forces of demand and supply are still operating, and still determine the price. But the wide fluctuations that we had under a wide-open system of production, are no longer with us, and we do not have the feast and the famine that we had before. We have a continuing supply with a stable industry that is affording steady employment and is contributing to the welfare of the country by meeting its needs for oil at low prices.

Mr. Chairman, I wish to express my appreciation to you and to the other members of the committee for permitting me to enter into this discussion of this aspect of the matter. I believe it is of very real importance. I hope that what I have said may throw some light upon some of the questions that some members of the committee have had in their minds in connection with the effect of the conservation procedures upon crude-oil prices and upon product prices.

Now, as I stated, I have prepared and written down answers to the 17 questions which the chairman has propounded, and have delivered them to the clerk. I am prepared to discuss those.

The CHAIRMAN. I believe the committee prefers to put that into the record. I will read the questions and then you read your answers.

Mr. BAKER. Yes, sir.

The CHAIRMAN. We will get this started and I think we will have to recess. But to get it started and show you the plan I have in mind, I will read this first question and I would like to have your answer.

Do the increased prices truly reflect the operation of normal market factors of demand and supply or are they the result of other causes?

Mr. BAKER. My answer to that is that the increased prices reflect the operation of normal market factors of supply and demand influenced more particularly in this instance by the long-range effect of continually increasing costs since the last general increase in December 1947, more than 5 years ago.

The CHAIRMAN. I have comments that I expect to make on your answers. But I will not take the time of the committee to do it at this point. I will continue with the questions and get your answers in the record, in continuity.

Two, was an invitation for someone else to start these price increases issued last May by our biggest oil company? I have reference there, of course, to the Rathbone statement.

Mr. BAKER. I would attach no unusual significance to the statement of Mr. Rathbone last May regarding prices. It has been generally known in the industry that price adjustments on crude oil and products were in order, considering the increased prices that have occurred for other commodities since the last general increase in crude oil and petroleum product prices, and in view of the very substantial increases in costs in all branches of the petroleum industry, particularly for exploration and production. The annual reports of a number of companies made this spring call pointed attention to the problem.

The CHAIRMAN. How would it happen that when one company initiated a price increase, all the others so quickly followed suit? Was this an expression of free competition?

Mr. BAKER. The economics of the petroleum industry has justified price increases over a considerable period of time. This fact was well known to all the students of the conditions in the industry and to the managements of the companies engaged in petroleum operations. Since the economic forces affect all operators engaged in the business, it is not surprising under the conditions existing that a price change upward would in general be followed.

However, the initial price increase has not been uniformly followed by others. For example, the crude price advance by Phillips was a flat 25 cents per barrel. Humble's price changes varied from 10 cents a barrel to 35 cents a barrel, with 25-cent and 30-cent prices as intermediates, and a 22-cent price, I may add. In several instances, changes were made by those who posted prices before a general market price for each grade of crude was established. I may and there, Mr. Chairman, in Louisiana, south Louisiana, some companies posted a price of 35 cents for the crude from some fields following our posted price of 35 cents for the Hastings grade. Some others posted a 30-cent price. After a time, all of them came to the 30-cent price.

I am not familiar with product price changes for the country as a whole. In the State of Texas, the increase in the tank-wagon prices named by different marketers has varied as a result of competitive factors and some adjustments have been made subsequent to initial announcements of increases.

For example, we published a seven-tenths cent per gallon tank-wagon price advance in general with certain additions for differences in transportation costs. Most of the other companies did not publish

the seven-tenths cent increase; they published a 1-cent tank-wagon advance. Since that time, some of those who published the 1-cent advance have dropped back to the Humble's seven-tenths of a cent. The thing is in a stalemate right at the moment as to what will be the resulting market price. Tank-wagon prices have not yet stabilized.

I would like to add this further thought, if I may, to this question which has been in the mind of the chairman. If a price advance made by one marketer is a sound advance, and is interpreted to be sound by the other marketers in the business who are in competition with him, chances are very good that they will meet that price. If they are in doubt about its soundness, some of them may refuse to advance, and some may advance less, and some may advance more.

As a result of the interplay of these forces affecting supplies, they settle out at some price. Somebody wins out in the battle. It just does not happen that they always follow each other.

I would like to point out that in the case of these crude advances, after Humble made different advances for different grades of crude, for the most part the market settled out at the prices which had been named by Humble and not at the 25-cent price advance which had been made by Phillips. The competitive factors in the market, the interpretation of what the market should be by these various purchasers, finally settled the market out at a varied scale of advances ranging from 10 cents a barrel to 35 cents a barrel.

Mr. HARRIS. With the chairman's permission, on that point a newspaper article this morning stated that in the course of the hearings yesterday that the retail price of gasoline in some areas had gone up as much as 3 cents per gallon since this increase. Do you know of any particular place in the country where the retail sale in the price of gasoline has increased to that extent?

Mr. BAKER. No.

The CHAIRMAN. To complete that picture, do you know of any place where it has decreased as a result of the increased price for crude?

Mr. BAKER. No, sir; I don't know that. I think it is a perfectly natural thing, Mr. Chairman, that the increased cost to the refiner would be reflected in the increased price of his product.

The CHAIRMAN. I do not want to get into a period of questioning you. While your statement has answered many questions, it has created many questions in my mind. I assume that is true with respect to the other members. I am accepting these answers that you are giving not because I personally agree with the answer that you are making, and I may want to question you about. If we get started on questioning each answer that you make, I doubt if we will have the record in the shape we would like it. I am refraining, and I hope other members except for purpose of clarification will likewise refrain, so we can get your story as connected and as continuous as it is possible to do.

Mr. BAKER. Do you object if I supplement any of these answers in the statement in the light of the discussion that is being had?

The CHAIRMAN. Certainly not.

It is about half-past 12. The committee will adjourn until 2 o'clock.

(Mr. Baker was granted permission to insert the following speech in the record:)

Achievements and Unsolved Problems in Oil and Gas Conservation

(By Hines H. Baker, president, Humble Oil & Refining Co.)

Being the substance of an address delivered before the spring meeting of the southwestern district, American Petroleum Institute, Division of Production, at Galveston, Tex., on March 10, 1949

The petroleum industry has to its credit no single accomplishment as outstanding as that achieved in oil and gas conservation. The system now in existence, resting on the exercise of the police power of the States and on the application of fundamental engineering principles, has been evolved in the short period of 30 years. It has proved to be an effective solution of a problem of paramount importance not only to the industry but to the public and the Nation as a whole.

Recently, however, this system of conservation has been the subject of attack. In a report issued January 31, 1949, by the special Senate committee (referred to as the Wherry committee) investigating the problems of small business, the charge is made that the conservation laws of the States control the quantity of oil that reaches the market and thus automatically control price. Defining a monopoly as "control of a product both as to quantity allowed to reach the market and price," the report classes the petroleum industry as a monopoly. It is charged as being "supported on a tripod, the first leg being the proration laws of the oil-producing States, the second being the Federal Government in the form of legislation, and the third being the large oil companies and oil producers."

A number of sweeping changes in the existing system of conservation are suggested. It is urged that upon the establishment of "true conservation practices," the limitation of production to market demand be abandoned; that the Bureau of Mines be prohibited from making forecasts of demand; that Congress investigate the interstate oil compact to determine whether authority for it should be repealed or restricted; and finally that the Connally Hot Oil Act (which prohibits the movement in interstate commerce of the oil produced in violation of State laws and regulations) be amended so as not to apply where proration to market demand is undertaken.

Such a broadside against the existing system of petroleum conservation cannot be taken lightly. Calling, as it does, for a revision of State conservation practices and for abandonment of the principle of limiting production to market demand, the report is an attack on fundamentals. Accordingly, it seems desirable to reappraise the program of conservation presently in effect, to determine and evaluate what has been accomplished under it, and to point out what remains to be done. By such reevaluation, we should be able to determine whether there is any truth in the charges made by the report or whether further progress in petroleum conservation lies in the direction of continuing the existing system and further perfecting it. Moreover, regardless of the charges made, it is a good thing from time to time to reevaluate and reappraise any development in the industry as important as conservation.

Evolution of the Present System

The movement which has evolved into the present-day practices of petroleum conservation is only about 30 years old. It began after the close of World War I when the automobile began to assume an important place in our daily lives. The growth of the automotive industry led to sharp increases in the demand for gasoline and crude oil. Responding to this need, the oil industry drew into its organization the necessary technical staffs and within a short time substituted scientific methods for the old haphazard method of exploration. Rapid progress was made; within a few years oil production greatly increased and soon the open-flow capacity of the wells was greatly in excess of the demands of the market. But the oversupply was only temporary. In these years the industry was characterized by recurring periods of feast and famine. Many were fearful that if the wasteful situation incident to open-flow production continued, we would soon run out of oil. In fact, both industry and Government soon came to recognize that something had to be done about this wasteful condition, which carried with it the danger of prematurely exhausting our limited petroleum resources. In 1924, President Coolidge took notice of these problems by creating the Federal Oil Conservation Board (composed of the Secretaries of War, Navy, Interior, and Commerce) and by calling on industry to join with Government

in working out a practical program of conservation. At about the same time, studies of conservation were carried out by industry committees, partcularly by a committee of the American Petroleum Institute known as the Marland committee.

In order to understand the conditions which existed at that time, it is necessary to recall a fundamental difference between oil and gas and such other forms of property as minerals, crops, or manufactured products. Reserves or stocks of these materials can be retained in possession or can be produced or sold in accordance with the wishes of the owner. Oil, on the other hand, is a fugacious substance; when a well is drilled into an oil pool and is produced, the resultant lowering of the subsurface pressure in the oil-bearing formation causes oil and gas to flow to that well. This flow is not confined to the region underlying the area owned or leased by the owner of the well, but results in subsurface drainage of oil from tracts owned by others. Thus a landowner had to produce the oil from wells drilled on his land in order to keep from losing his oil to his neighbor. In the absence of an agreement between the owners of a pool or of any other method of enforcing ratable taking, the inevitable result was a mad drilling race in each new pool, in that the operator who could first get the most wells drilled could drain a proportionately larger part of the common underground supply. In order to protect one's property under such a situation, it was necessary to drill offset wells immediately and to drill each tract to the same density as the most densely drilled adjacent tract. In no other manner could an operator assure himself a reasonable chance to participate in the production in anything like the ratio which the oil under his tract bore to that in the entire pool. It is obvious that under such a system it was equally necessary to produce each well to capacity. No thought could be given to control of gas or water production. Underground waste was inevitable. Perhaps even more serious than the underground waste was the fact that under this situation it was impossible to build up and retain oil reserves in the ground. Each new major pool produced a flood of oil and was quickly exhausted, whether a demand for the oil existed or not. Continuity of supply was contingent on the fortuitous discovery of new pools of adequate size to meet demands, and no backlog existed or could be provided to tide over lean periods between discoveries or to meet emergencies. Prices fluctuated violently and development costs were excessive.

The problem as it then existed might be phrased thus: In view of the tendencies toward waste created by the competitive race to capture oil, the excessive costs under open-flow methods, and the legal difficulties, could a system be devised to bring about conservation? Was there a way in which these problems could be met so as to secure maximum oil recoveries and at the same time satisfy the property rights and equities of the various landowners?

At that time very little was known of the nature and characteristics of oil reservoirs, of reservoir pressure, and of operating oil fields so as to utilize the reservoir energy effectively. Relatively little research on those subjects had been undertaken. It was not until it was understood that gas or water is essential both to maintain the underground pressure required to cause oil to flow to a well bore, and to displace oil from the porous formations in which it naturally occurs, that progress was possible in conservation underground. Once this fact was understood it became obvious that increased oil recovery might be obtained if it were possible so to control the action of gas and water as to cause them to displace oil more thoroughly from a reservoir. This problem was a technical challenge; it was attacked in the field and in the laboratory by geologists, engineers, and research groups of the industry, the United States Bureau of Mines, and others.

Study of these questions resulted in the accumulation of a considerable volume of knowledge dealing with the nature of oil and gas reservoirs, how to utilize the energy of the gas associated with oil and of the water underlying it, and how to produce more efficiently. It was found that unregulated production was leaving in depleted oil reservoirs more oil than was recovered. The cause was determined: under wide-open production oil was produced almost entirely by the agency of gas dissolved in the oil or associated with it in the reservoir. The quantity of this gas in any reservoir was limited; it escaped readily with the oil or was deliberately produced from gas caps and was quickly dissipated; when the gas was exhausted, oil production ceased through lack of an agency to maintain reservoir pressure and to displace the remaining oil. It followed that a remedy must lie in avoidance of premature dissipation of gas and retention within the reservoir of as much of it as possible.

It was found, also, that water when available in sufficient volume to encroach naturally into an oil reservoir is frequently much more effective than gas in displacing oil. Unusually high oil recoveries were obtained in some fields where water rather than gas was the principal agency in effecting oil displacement.

From these factual observations, based on recoveries from depleted oil pools, coring, secondary recovery operations, and other approaches; from actual experience in the operation of reservoirs under controlled conditions; and from extensive research, there emerged a clear picture of oil reservoir mechanics and the manner of operation required for efficient oil recovery. It was demonstrated that through properly controlled production, a reservoir might be made to yield economically a higher ultimate oil recovery. In addition, it came to be understood that production in excess of the demands of the market results in physical waste and that the drilling of unnecessary wells piles up capital investments, resulting in higher producing costs and likewise leading to physical waste.

Gradually, operators came to be convinced that it was to their economic interest to produce oil and gas fields under conservation practices. However, agreements among operators for improved practices were blocked by fear of prosecution under the antitrust laws. Also, in many fields there were some operators who were intent on pursuing every advantage under the rule of capture. Accordingly, some means had to be provided by which the operator who wanted to produce in accordance with good practices could do so and have protection against the operator who wanted to drill as many wells as possible and produce to capacity. It became apparent that regulation was necessary to protect the public interest against waste of a one-crop resource.

The conclusions thus reached called for enactment of conservation laws by the oil-producing States. In the formulation of these laws and in their early administration, the oil executive, the technologist, the engineer, the lawyer, the legislator, the conservation administrator, and the courts all made outstanding contributions. By a combination of talent and effort, by the development and application of increasing engineering knowledge and new procedures, and after an extended period of trial and error and tests in the courts, the system of oil conservation—the workable system we have today—came into being.

The broad objective of this system is to prevent the waste of oil and gas, both under and above ground, in a manner which protects the correlative rights of the property owners. State statutes defining and prohibiting waste form its foundation; it is administered by State conservation agencies through appropriate rules and regulations. The technical basis for this regulation by the States to prevent waste may be summarized briefly as follows:

To prevent underground waste of oil, two fundamental conditions must be obtained:

First, the displacing agent, either gas or water, must be conserved.

Second, the displacement must be caused to proceed in the manner which will most thoroughly flush the reservoir of its oil content.

To prevent surface waste of oil, storage must be kept to a minimum.

Numerous regulations governing the location, spacing, drilling, operation, and abandonment of wells, and regulating gas-oil and water-oil ratios are provided to achieve these ends. However, the most important regulation, without which most of the others would accomplish little, is restriction of the rate of production, of both individual wells and pools. Control of production rate is absolutely essential to conserve reservoir energy, to effect efficient oil displacement, and to protect correlative rights. Normally, this limitation of production rate is based solely on the physical characteristics of each reservoir and a factual determination of the maximum rate at which it can be produced efficiently. However, when the total demand for oil from a State is less than the efficient producing capacity, it then becomes necessary in order to prevent waste to impose a still further restriction to limit the total production to market demand. The reasons for this latter restriction will be considered in more detail later, where it will be shown that it is not only necessary for the direct prevention of physical waste but is essential for the protection of correlative rights and the proper functioning of other waste-prevention measures. It should be borne in mind that limitation of production to market demand has application only when holding production to the maximum efficient rate will not prevent waste.

Thus, the conservation system which has evolved is one of regulation by the States to prevent waste and to achieve greater ultimate recovery. Its most important essential is limitation of the production of each field to the maximum rate at which it can produce efficiently, or to its share in the reasonable market

demand, whichever is the lesser, and allocation of the production so determined among the several properties in such manner as to enable each owner to recover his fair share.

The successful carrying out of the conservation program has been a cooperative process. It has involved the development and sharing of increasing technical knowledge and the combined efforts of many persons and agencies. While, as stated, the program rests on sound engineering and the wise exercise of the police powers of the States, the Federal Government, also, has played a cooperative role. The interstate oil compact, created by an agreement among the oil-producing States, and approved by Congress, does important educational work in fostering conservation. The Connolly hot-oil law, a Federal statute, assists States in enforcing their laws by prohibiting the movement in interstate commerce of oil produced in excess of States allowables. And finally, the Bureau of Mines, a Federal agency, publishes factfindings of market demand which are useful to State agencies in determining State allowables. All of the parts are necessary to the operation of the whole; none can be dispensed with.

PROGRESS IN OIL CONSERVATION

As has been said, the system of oil conservation that exists today has been developed over an extended period through a process of learning and cooperative effort, and reevaluation of techniques. But along the way, in the evolution of principles, in the development of improved techniques, through the application of scientific methods and through costly trial and error, many specific accomplishments have been made. For example, there will be considered the accomplishments on such highly significant subjects as the conservation of reservoir energy and determination of maximum efficient rates of production, allocation formulas, well spacing, and the problem of limiting production to market demand.

Conservation of reservoir energy and determination of M. E. R.'s

Conservation of reservoir energy is accomplished through two means: first, by conserving the gas and water which are the sources of energy, and, second, by controlling the rate of production, which regulates the efficiency of displacement. Control of gas and water is accomplished in part through proper well completion, through selective restriction of the production of those wells which individually produce with excessive gas-oil or water-oil ratios, and through the return of gas or water to the producing reservoir. All of these approaches are followed extensively. For example, in the east Texas field, water produced with the oil is currently being injected into the reservoir at the rate of 500,000 barrels per day for maintenance of pressure.

It has been found that displacement efficiency is highly dependent upon the rate of oil production. The maximum rate of production of oil which can be tolerated in a particular reservoir without material loss of ultimate recovery is called the maximum efficient rate, or M. E. R. It is possible through the technical study of a reservoir and its operation to determine the type of displacement and the rate at which the displacement process is able to proceed wtih the greatest ultimate recovery of oil. If the rate of oil production appreciably exceeds this amount, ultimate recovery is adversely affected. Furthermore, excessive rates of production will not only adversely affect efficiency of displacement but will defeat efforts to conserve gas or water within the reservoir. On the other hand, rates of production lower than the maximum efficient rate usually yield but slight increment increases in ultimate oil recovery.

Although for some time the M. E. R. has been recognized as an engineering principle, it is only recently that technical progress has advanced to the point where quantitative determinations may be made for individual fields. The State of Texas has taken an aggressive lead in determining M. E. R.'s for the various fields in the State. Except for the years 1944 and 1945, annual hearings for the establishment of M. E. R.'s in all proratable fields have been held since 1943. Other M. E. R. hearings are held at intervals as the need arises.

In Mississippi, statewide rules provide for the establishment of M. E. R.'s for all pools and initial hearings are planned for the near future. The problem has likewise been recognized by other States and progress is rapidly being made.

Allocation formulas

It is a necessary function of administration under a conservation law to allocate production from a pool so that each operator may obtain his fair share. Unless the production is so allocated, nonratable withdrawals result, causing physical waste through irregular encroachment of gas and water and inefficient

displacement of oil from the reservoir. Moreover, improper allocation formulas frequently lead to unnecessary drilling and tend to create a pressure for excessive production from individual tracts. Toward the goal of more perfect allocation formulas much progress has been made, particularly in the past 20 years.

The best proof of this progress is seen in an examination of the various types of allocation formulas used by conservation agencies, particularly in the trend away from the use of wells and potentials alone and in favor of acreage and reserves as dominant factors therein.

Table I attached shows the various types of formulas which have been employed in the State of Texas since 1931. From this table it appears that in recent years the great majority of these formulas have used acreage plus wells to the exclusion of other factors as a basis for allocation.

In Louisiana a majority of the special field rules dealing with allocation provide for the use of acreage or, in a few cases, for a combination of acreage and pressure. The statewide rules of Mississippi provide for allocation on the basis of acreage. The State of New Mexico is predominantly on the basis of acreage proration.

Well spacing

The drilling of more wells than are necessary to drain an oil reservoir not only greatly increases production costs, thus leading to economic waste, but also creates pressure for an excessive rate of production, which ultimately leads to physical waste.

Although progress in proper well spacing has not advanced as rapidly as in other aspects of conservation, nevertheless it has been substantial. With a few exceptions, fields in which there is a close spacing of wells are things of the past. A brief review of what has been accomplished by the industry and the conservation agencies is interesting.

Previous to 1920, oilfields were frequently drilled to a density of more than 1 well to 5 acres. A number of the gulf-coast fields in Texas, such as Spindletop, Sour Lake, Batson, Humble, and Goose Creek, were even drilled to a density of 1 well to 1 or 2 acres. Contrasted with this close spacing, new fields in Texas, Louisiana, Mississippi, and New Mexico are now frequently developed on a pattern of 1 well to 40 acres, and sometimes 80 acres. Many gasfields are being developed with 1 well to 640 acres or more.

The savings resulting from wider spacing have been tremendous. In 1948, approximately 9,500 oil wells were completed in the 4 States mentioned. If the average spacing had been the same as that in effect in many of the older fields, over 100,000 additional wells would have been required to develop the same acreage. Had such a number of wells been drilled, the resultant additional cost to the industry, and hence to the public, would have been in the billions of dollars, or several dollars per barrel for the oil produced in those States during 1948. Obviously, steel supplies would have been inadequate for these additional wells. If the wells which actually were drilled had been so closely spaced, only a fraction of the reserves would have been developed and either wasteful production rates or an oil shortage would have resulted.

Market demand

Another respect in which outstanding progress has been made is in limiting production to market demand. In order to appreciate this phase of progress, it is necessary to consider briefly the background of the situation from which the need for this limitation arose. During the 1920's, partly as the result of the introduction of geophysical methods into exploration, sensational discoveries added tremendously to our oil reserves. During the 6-year period 1926 through 1931, over 14 billion barrels of oil were discovered and reserves increased 9 billion barrels. The potential flood of oil from such fields as Yates, Hendrick, the Panhandle, Hobbs, Oklahoma City, Van, and finally east Texas was so great that even if held well below their maximum efficient rates, these fields could produce far more oil than was currently required or could be absorbed by the market. The east Texas field alone could produce well over a million barrels per day. Limitation of production to market demand was an outgrowth of that surplus; the situation could not be dealt with in any other fashion. Had it not been invoked, some fields would have had to close down; stripper wells would have been abandoned by the thousands; unratable taking, causing hardship and waste, would have resulted; and the entire system of conservation then actively develop-

ing would have been in serious danger of collapse. In spite of many mistakes and in spite of the difficulties encountered, the progress which has been made is outstanding. One has but to contrast the east Texas field, Yates, Van, Conroe, and many others, their sustained ability to produce after 20 years or so of steady production without waste, with such fields as Powell, Wortham, and others of a slightly earlier period, whose reserves were largely exhausted in a few short years, to see the tangible results of this progress—its tremendous importance to the entire conservation movement.

Since this aspect of conservation has been singled out by the Wherry report for special criticism,[1] being pointed to as a price-fixing device having little or no relation to the prevention of physical waste, it is considered particularly essential that the true facts regarding it be understood.

The essential questions are: Why is it necessary to restrict production to market demand? What bearing does it have on physical waste? Is it in the public interest?

The basic reason for limiting production to market demand is that to prevent physical waste it is necessary concurrently to provide a system of ratable taking. From bitter experience, developed over years of trial and error, it has been demonstrated that under conditions when the demand for oil is less than that which can be produced at maximum efficient rates, a conservation agency cannot bring about ratable takings unless it has the authority to limit production to the demand. The reason for this is fairly obvious. Market demand means simply current consumptive demand. It is that oil which purchasers are willing to buy. If the allowed production from a pool exceeds that which purchasers are willing to take, the burden of assuring ratable takings and protecting correlative rights is shifted from the regulating agency to the purchasers.

To illustrate the difficulties involved, the case history of one field may be of interest. Because of a reduction of demand, the principal purchasers of crude oil in a field in north Texas early in May 1938 began refusing to make connections to new leases but continued to run oil from new wells on leases to which they were already connected. The allowable production was approximately 21,500 barrels per day and the oil actually being moved by the purchasing companies was approximately 3,000 barrels less than this amount. As a result, with a drilling program in operation, the number of unconnected wells increased and by August three purchasing companies prorated their purchases and took substantially less than the allowable from the wells to which they were connected, including their own. By October, in addition to unratable production incident to a large number of unconnected wells in the field, the following program of purchasing was in effect as applied to connected wells: one company was taking 100 percent of allowable, another taking 65 percent of allowable, a third taking 80 percent of allowable, a fourth taking 75 percent of allowable, and still another taking 80 percent of allowable. This situation resulted in a confused state of unratable production and inequitable participation by producers in the market.

Because oil and gas do not remain confined underground by lease boundaries, unratable takings result inevitably in drainage of oil and gas from one property to another. Thus, correlative rights cannot be protected under such conditions. In spite of efforts made by purchasers to be fair, inequities result. It is not the major producer who is usually hurt by this condition. Rather, it is the independent producer, usually the one with but a few wells, who has no pipeline and no alternative market if the purchaser to whom he is connected is unable to take his allowed production. Thus, restriction of production to market demand is essential to protect the small, independent producer, to assure the protection of his correlative rights. It is a system which takes from the purchasers the allocation of production within pools and among pools and places it where the responsibility properly belongs, in the hands of the State conservation agency.

Under conditions when the allowed production exceeds the demand, the producer without a connection, or with a connection to a purchaser who is unable

[1] The report states: "True conservation practice would require the gas produced in the production of oil to be returned to the underground to restore pressure, or used commercially, or close in the wells. With such a program of true conservation the amount of oil a given owner desired to bring to the surface and sell on the market should be left in the well operator's discretion. Once true conservation practices are established and enforced, all market demand or proration factors should be abolished."

It completely ignores correlative rights and most elements that cause waste. If its recommendations were adopted, ratable taking and allocation of production would be eliminated. It is obvious that such a program (if it can be called that) offers no workable alternate to the present conservation system.

to take the permitted production, suffers drainage to the leases of those more favorably situated. Such causes irregular and improperly distributed withdrawals, resulting in irregular encroachment of water and gas and inefficient displacement of oil and gas from the reservoir. This is physical waste. Conditions resulting from unratable takings, therefore, result directly in underground waste.

The producer without a connection has but one other recourse; he may erect storage and produce his allowed production into such storage. However, this expedient is economically unsound; it should not be necessary under a properly regulated system. As a practical matter it is usually not feasible to build storage for short periods of slackening demand, and it has long since been shown that excess surface storage leads to an economic burden on the industry, which in the final analysis is against the public interest. Furthermore, because of the volatile nature of crude oil, surface storage is inherently wasteful. Accordingly, one element of sound conservation is that surface storage should be kept to the minimum working stock necessary for a smooth flow of oil from the producer to the refiner to the ultimate consumer. Any excess above this amount serves no useful purpose and leads to waste.

A point not usually understood is that production normally is restricted not to market demand but to the maximum efficient producing rate of each field. it is only when the aggregate efficient producing capacity of all the fields within a State exceeds the total market demand that it becomes necessary to reduce the allowed production below the efficient capacity. Thus, proration is basically not a system of balancing production with demand but of regulating production to prevent waste, and of balancing it with demand only when such balance is required to protect correlative rights and assure ratable takings, in order that other regulations designed to prevent waste may be effectively carried out. Many of the oil-producing States have statutes which specifically authorize limitation of production to reasonable market demand, and it has been repeatedly shown and upheld by court decisions that the right of the States to exercise their police powers to prevent physical waste permits them to restrict oil production to market demand for this purpose. This right has been upheld on the basis of factual proof before the courts that production in excess of market demand leads to physical waste.

No claim is made that regulation of production to market demand is without influence on price. But such restriction is not a price-fixing program and does not result in price fixing. Instead, the forces of supply and demand, and individual competition between units in the industry, operate upon and affect the price of oil. The effect has been a stabilization of price rather than fixing of price, and a stabilization of the industry. That this stabilization has not resulted in a burden to the consumer but on the contrary has made oil available in adequate supply and at a reasonable price is shown by the fact that never since effective conservation regulation has been employed by the States has the price of oil been as high in terms of 1926 dollars as it was prior to the inauguration of such regulation. The stability of price and stability of supply made possible through regulation of production to market demand assure all producers a market at the prevailing price for their allowable production and thus reduce sales under distress conditions. This again works to the particular advantage of the independent producer. Obviously, the producer who has no market will sell his oil at any price he can obtain rather than try to store it or permit his neighbor to drain it from beneath his land. If there are substantial numbers of producers in such position, this results in the price finally going down to the point where the oil cannot be profitably produced. The result is economic waste. However, the fact that there is economic waste incident to the production of oil in excess of market demand in no sense detracts from the fact that such excess production causes physical waste.

An important feature of price stability is that marginal wells are protected against premature abandonment. Marginal or stripper wells are a source of an important part of the total oil production. The reserves from which they are producing usually would not support renewed drilling if the old wells were abandoned. In the past such abandonment inevitably occurred during periods of distress and excessively depressed prices.

A still further benefit of restriction of production to market demand is that the resultant stability of price and stability of markets make possible investments and facilities for conservation of casinghead gas and facilities for injection of gas and water to supplement natural reservoir energy to increase ultimate oil recovery.

Oil not yet produced but held back in flush fields able to produce efficiently at higher rates is actually as readily available to the market as is oil in surface storage. Thus, in no real sense is oil held back from the market by limiting production to market demand. It is not an expedient to make oil scarce. Rather, the effect is that oil available to the market is held in its proper storage, which is underground, where it may be held without waste, instead of being held in surface storage above ground, where it is subject to evaporation and hazards of fire and leakage and thus to physical and economic waste. Developed capacity to produce, rather than storage, in final analysis determines the ability of the oil industry to meet consumer demands. Accordingly, restriction to market demand is not restriction in the absolute but is really restriction of some operators for the protection of the correlative rights of all operators.

An effective answer to the question of public interest comes from an understanding of how restriction of production to market demand in the years preceding World War II provided a backlog of reserves which could be tapped and utilized to defend the country in time of need. The war requirements were met by increasing the production from what hitherto had been the demand to amounts not exceeding the maximum efficient rates of the various fields, all without injury to the reservoirs. Available fields like Webster, where production was increased from 10,000 to 60,000 barrels per day; Hastings, which was increased from 20,000 to 65,000 barrels per day; and Conroe, which was increased from 30,000 to 60,000 barrels per day, provided the additional oil needed to meet the sudden emergency. The reserves so provided were available on demand as an essential strategic resource. It was the system of restricting production to market demand, adhered to prior to the war, which made it possible to meet the unprecedented war requirements. It is the same system which has made it possible to meet postwar demands and again to achieve a surplus. Today we are entering on a new era with a maximum efficient producing capacity which can overproduce if it is permitted to do so. We need this capacity again to build up available reserves which can be called upon in the event of an emergency. Thus and foremost, restriction to market demand is not a matter which concerns oil producers alone but is one of public interest and vital national concern.

It must be recognized that sound administration by State conservation agencies is essential to prevent waste and to afford all operators an opportunity to recover their fair share of the oil and gas in a pool. This applies throughout the range of conservation administration. However, the conservation agencies and the industry must be especially mindful of the real and fundamental purpose of limiting production to market demand as an essential and effective means of preventing waste and protecting correlative rights. The employment of this principle must not be used as an artificial means of causing shortages and thus arbitrarily affecting or controlling price. Of course, no conservation agency can always accurately determine the current market demand. At times the established allowances may be temporarily above or below demand, and in subsequent orders, adjustments may be required to bring about a balance. Moreover, as in other phases of oil- and gas-conservation administration, resort to the courts may be necessary to draw more precise lines of permissible and nonpermissible regulation. It should be the objective of all involved, by a process of learning and through constant effort at improvement, to make the employment of this fundamental principle serve to accomplish its needed function.

ACCOMPLISHMENTS IN OIL CONSERVATION

The accomplishments in oil conservation as administered by the oil-producing States and the benefits to the Nation, the consuming public, and the industry have been outstanding. A partial enumeration of these includes the following:

1. Through conservation there has been a much greater recovery of oil from underground reservoirs and less waste of oil above ground. In the east Texas field alone, it is estimated that as a result of conservation practices the ultimate recovery will be increased as much as 25 percent or 1 billion barrels. Similar results have been and are being attained elsewhere.

2. Through proper spacing regulations, there have been lower investments in wells, storage, and other equipment, resulting in lower prices to consumers due to reduced production costs. The average price today for a gallon of regular gasoline in the United States is 26 cents, which includes 6.4 cents per gallon for taxes. This price, including taxes, is nearly 4 cents a gallon less than the price obtaining in 1920 and 10 cents a gallon less than the 1920 price when taxes are

excluded. This reduction in price to the public has been the result of the application of conservation techniques as well as the advances made in refining and distribution.

3. There has been created a stable industry providing steady employment. In the years before conservation there were periods of feast when the markets were flooded with oil, followed by periods of famine when shortages occurred. There was no stability either in operations or in employment. Today, under conservation, with proved reserves being produced over extended periods, the industry is able to operate upon an even basis, thus providing assured employment and steady incomes.

4. Conservation has provided sufficient quantities of oil to meet the demands of an industrialized economy and a backlog of reserves to meet national emergencies. The restriction of production to market demand in the years preceding World War II not only provided the oil necessary to meet the demands of our economy prior to the war but, when the war needs arose, provided a backlog of reserves which could be tapped and utilized to defend the country. It is estimated that by this means approximately 1 million barrels per day of additional oil was thus available to meet national needs during World War II.

PROGRESS IN GAS CONSERVATION

A major portion of modern conservation problems relates to the saving and utilization of gas. In the field of gas conservation, outstanding progress has been and is being made.

The gas reserves in Texas, and in the United States for that matter, are nearly equivalent in weight and heating value to the oil reserves, and they could be almost equal in economic importance and value. Hence, their conservation is equally important. Each 6,000 cubic feet of gas contains a fuel value equal to that of a barrel of crude oil. Today this gas sells at the wellhead for around 5 cents a thousand cubic feet, or for the equivalent of about 30 cents a barrel of oil. New contracts often provide for a current price as high as 10 cents. These low prices constitute a major obstacle in the way of greater conservation because most gas-conservation projects require large initial investments that cannot be justified unless field prices become higher than they have been in the past.

The conservation of gas has encountered additional difficulties, all inherent in its peculiar nature. Gas, like oil, readily moves underground from one property to another as pressure in the reservoir is reduced by the drilling of a well. However, unlike oil, no practical means exists to store it even temporarily above ground; to be fully conserved it must be returned to the producing reservoir or to underground storage, or marketed as produced.

Broadly, there are two types of gas occurrence, each of which has a separate conservation problem. First, there is the gas that exists underground in a gas reservoir and is produced by itself through gas wells. Second, there is gas produced with oil through oil wells, known as casinghead gas.

Conservation of gas-well gas is accomplished in part by the production of such gas in sufficient volume to meet market demand but not in excess. For gas fields where no immediate market exists, cycling, a technique of processing gas to recover liquefied products and returning the residue to the reservoir, has been developed extensively in the last 10 years as an important step in gas conservation. However, gas cycling presents some problems. The economics of the operation must be such that a large investment in plant facilities will be paid out in a reasonable period. In addition, since the whole reservoir must be operated as a unit for adequate recovery of liquid products and return of residue, cooperative agreements between producers and royalty owners must be secured.

In the main, gas-conservation problems relate primarily to the second type of gas occurrence—casinghead gas. The difficulties in conserving casinghead gas are both technical and economic. It is inevitably produced with crude oil, the supply being dependent upon the rate of crude-oil production. It is a byproduct material which has already performed a useful function in moving or facilitating the movement of oil into oil wells and lifting the oil to the surface. In a sense, therefore, casinghead gas may be said to have accomplished its primary function when oil is produced in a nonwasteful manner. After the gas has been produced, it may, of course, be utilized for other purposes if economic incentives warrant the expense involved.

Here many difficulties arise. Casinghead gas is produced in many localities, some widely scattered. It must be processed and compressed before it can be effectively used for fuel. The supply cannot be regulated to meet fluctuations

of gas markets and peak demands, but is rigidly tied to the rate of oil production. Even in a particular field, it must be gathered from many sources. Sulfur, if present, must be removed. To date, a lack of suitable markets and a low field price have hindered conservation efforts as applied to casinghead gas.

The nature of the reservoir from which casinghead gas is produced, especially whether the reservoir energy is contained in a gas cap, in gas dissolved in the oil, or is supplied by water drive (or involves a combination of these factors), vitally affects the subsequent use that can be made of casinghead gas. For example, efficient operation of a water drive pool for maximum oil recovery requires that the reservoir pressure be maintained at a high level to prevent escape of solution gas with attendant shrinkage and loss of fluidity of reservoir oil. Proper conservation practice requires that casinghead-gas production in such a field should never be permitted substantially to exceed that dissolved in the oil. Modern well-completion devices and restriction of oil production to efficient rates have usually made possible reasonable control of gas-oil ratios in such pools.

In a pool with a thin oil interval overlain by a gas cap, control of gas-oil ratios is not always possible and it may be necessary to return the excess gas to the gas cap.

In fields without water drive and in which the energy source is dissolved gas, conservation of the gas for its primary function in the production of oil is of utmost importance. In such a field, ultimate oil recovery would be increased by maintaining within the reservoir all gas originally associated with the oil until oil production is substantially complete. However, even under carefully controlled rates of oil production it is not possible to prevent the production of gas. Nevertheless, frequently it is both possible and practical from a technical and economic standpoint to accomplish the equivalent by returning the produced gas to the oil reservoir. In those fields in which gas return affords an economically sound method of increasing ultimate oil recovery, the produced gas should not be considered currently available for market.

Maximum benefit from gas return in this type of reservoir is obtained when gas is injected at the crest of the structure to create a gas cap. When gas is so injected in a pool in which various operators and royalty owners are involved, frequently it is difficult to preserve the relative equities of the different owners unless the entire pool is operated as a unit or under a cooperative program so that all participate in the production on an agreed basis. Although many States have statutes permitting unitization of various interests in an oil pool for the purpose of conducting operations designed to increase ultimate recovery, and although Texas statutes authorize unitization of gas fields, the lack of a statute in Texas specifically authorizing voluntary unitization of oil pools has greatly hindered the development of gas-return projects.

The problem of control of gas production in an oilfield with a gas cap presents difficulties not otherwise encountered. From a strictly technical standpoint, gas should not be produced from the gas cap of an oil reservoir until the oil is substantially exhausted. Sometimes, however, the gas cap may be so large as to constitute the major reserve, with the oil present in minor quantities. Practical considerations sometimes require that such a field be produced primarily as a gas field without consideration of the effect of gas production on the oil recovery. Frequently, ownership within the gas-cap area of a pool differs from that within the oil area. Retention of the gas-cap gas within the reservoir for the purpose of increasing the ultimate oil recovery would not only deprive the owner of gas of an opportunity to enjoy his property, but would allow his property to be used for the benefit of another and, unless all produced gas were returned to the gas cap, would eventually transfer his gas reserve to other properties. Under these conditions it is almost impossible by any amount of regulation simultaneously to prevent physical waste and protect the correlative rights of all parties. Where cycling of the gas cap is feasible, such a step may provide a temporary expedient, but at the conclusion of cycling the problem remains basically unchanged. The only practical solution is a cooperative program between the several owners, or unitization of the oil and gas reserves and participation by all parties in the commonly owned production from the pool. Where it has been employed, this solution has found favor among operators and royalty owners alike, is equitable, facilitates conservation, and protects correlative rights. Nevertheless, cooperative development of gas-cap fields in Texas on such a basis has been hindered by lack of a statute specifically authorizing voluntary agreements among the interested parties.

In spite of the difficulties enumerated, substantial progress has been and is being made in gas conservation. Gas from zones containing no oil is completely

conserved, in some cases through cycling, with recovery of liquefiable components and return of the dry residue to the producing formations for later use; in others through delivery to pipelines for market. A very small amount is used for gas lift in oil wells, where it becomes commingled with and thereafter a part of casing-head gas.

No longer are gas caps overlying oil zones dissipated to the air through gas wells. Some gas-cap gas is marketed, to the detriment of ultimate oil recovery; however, in most important oilfields gas-cap gas is not now produced from gas wells. In a number of instances gas-cap gas is being cycled for recovery of liquid products and returned to the producing formation.

Progress in casing-head-gas conservation has recently been most spectacular. It has been estimated that at the end of the war in 1945 somewhat less than half the total casing-head gas in Texas was being effectively conserved, the balance being flared. Since the war, 82 gas-conservation projects, costing $88 million, have been built and 56 additional projects, costing an additional $168 million, are scheduled for completion in 1949 and 1950. It is estimated that this postwar program will permit saving of 90 percent or more of the casing-head gas in Texas which it is economically sound to utilize. Progress is also being made in other States.

Advances are being made in more effective control of casing-head-gas production through reduction of permitted gas-oil ratios. It is estimated that over 1 billion cubic feet per day of casing-head gas in Texas is retained in oil reservoirs and saved through allowable penalties applied to wells producing with excessive gas-oil ratios.

UNSOLVED PROBLEMS

If the oil industry is to continue the outstanding technical achievement and enlightened progress which has characterized its past, it cannot be content merely to look with pride at the record. It is essential from time to time to take stock; to appraise; to determine the basic factors which have led to advances, with the object of their improvement; to determine the obstacles in order that they might be removed; to ferret out the unknowns that they might become known; to analyze and face the unsolved problems that they may be met.

Chief among the problems not satisfactorily solved and on the solution of which further progress depends are the following:

1. Well spacing

Technical understanding of oil reservoirs has now advanced to the point where the function of wells is properly understood, and it has been demonstrated that proper completion and location of wells are far more important to efficient oil recovery than the number of wells. Nevertheless, imperfect allocation formulas giving too much weight to wells still continue. The result is that progress in proper well spacing has not advanced as rapidly as progress in other aspects of conservation. Further progress can be made in the matter of wider and more uniform spacing of wells.

2. Proper allocation between fields and between properties within a field

This problem is primarily one of regulation and administration. At a time when the market demand for oil is such that each field is restricted only by its own maximum efficient rate, allocation between fields is not in itself a problem. In times when or areas where capacity to produce efficiently is in excess of market demand, means must be found for dividing the total allowable production among all pools in a manner which is fair and equitable to all. Allocation between properties within a pool should be such as to prevent waste and promote recovery while at the same time protecting the correlative rights of all parties. There is room for substantial improvement in this direction. Such improvement must come through enlightened administration supported by sound principles of law but can be facilitated through cooperation between industry and State regulatory agencies. The Interstate Oil Compact Commission can give effective assistance to the States in this direction.

3. More exact determination of the maximum efficient rate of production of each pool

This problem is clearly a technical one and industry's direct responsibility. Progress must come through increased research and more detailed geologic and engineering study of each reservoir. Although it is relatively easy to determine in a pool producing primarily by water drive the rate of production which will permit proper pressure maintenance, quantitative determinations of the

M. E. R. for fields producing under gas-cap drive are much more difficult. In fields producing by solution gas drive, there is as yet no unanimity. This type of drive is inherently inefficient and requires substantial modification to yield an appreciable increase in oil recovery. Furthermore, in some fields with very low permeability the maximum efficient rate may be so low as to be uneconomic. Public interest cannot be served by operating an oilfield at a loss and it becomes necessary in some instances to give substantial weight to economic considerations.

4. Control of gas-cap reservoirs

The exercise of the police power normally permits a conservation agency to carry out oil conservation. However, because of the inability to compensate for gas not produced, there is no practical way in a gas-cap field to bring about conservation and at the same time protect the correlative rights of the owners through the application of the police power alone. A difficult technical and administrative problem thus arises; it can be solved only through the cooperation of the legislature, the conservation administrator, and the operators. Specifically, the solution can be realized only by the enactment of laws (in States not having them) permitting the cooperative or unit operation of oil reservoirs, followed by cooperative agreements between the several owners. The operation of such agreements must, of course, be administered under and pursuant to the conservation laws.

5. Lack of adequate gas markets

The lack of adequate markets for gas-well gas forces operators to shut in gas wells and prevents its production. The lack of markets for casing-head gas is one of the more serious obstacles to its conservation. This obstacle may be classed as one of the unsolved problems.

The low field prices for gas previously mentioned have not been sufficient to induce operators to make the large investments required to market or utilize casing-head gas. Although the industry is proceeding rapidly with the accomplishment of the casing-head-gas conservation program, progress along these lines has been hampered for many years by the relatively low field price for gas, which, even with the construction of transcontinental pipelines from the southwestern area to the northern and eastern areas, remains a major obstacle.

Another major deterrent to the greater conservation of casing-head gas is the interpretation given the National Gas Act, which allows the Federal Power Commission to fix the price at which gas in the field is sold to a purchaser who delivers it to an interstate line. Since the Federal Power Commission allows companies subject to the act only a 6 or 6½ percent return on property subject to regulation, the ruling to the effect that field sales are subject to price regulation materially reduces the incentive of producers to sell gas to interstate purchasers. The reason for this is obvious. If by virtue of oil production the producer had already recovered his investment in the particular properties involved, he might well be forced by the Commission to give away his gas on the theory that he had already received his maximum return. This, of course, would not compensate him for investments made in other properties which turned out to be nonproductive. It is clear that under these circumstances, producers are not encouraged to find markets for their casing-head gas. This obstacle could be removed by the enactment by the Congress of a law amending the Natural Gas Act so as to exempt field sales from Federal regulation. In taking such a step, Congress would only be confirming the meaning given to the original bill by the industry, the Commission, and those sponsoring it before Congress.

CONCLUSION

It is apparent that the petroleum industry, in cooperation with and under the regulation of the States, is doing an outstanding job of conservation of both oil and gas. Although problems remain which still present a challenge, the petroleum industry has never been static; we may with confidence expect that the effective combination of competitive enterprise and sound State regulation which has resulted in the remarkable progress already achieved will continue in the future to provide for the recovery and conservation of an ever greater proportion of our underground reserves of oil and gas. This confidence is dependent upon the retention, improvement, and strengthening of the system of State regulation upon which and under which these achievements have been attained.

TABLE I.—*Trend of allocation formulas prescribed by railroad commission for Texas fields, 1931–48*

Allocation method	Number of fields														Percent
	Prior to 1937	1937	1938	1939	1940	1941	1942	1943	1944	1945	1946	1947	Total, 1948	Total	
Pf with minimum	2		1											3	0.48
M+(P-M)f	1	7	1											9	1.45
Per well	25	13		4	13	22	4	4	12	5	1	1		104	16.67
25A+75P	1	1												2	.32
25A+75W						3	1							4	.64
½A+½W+½P					1									1	.16
¼A+½W+¼B						3	1		1					5	.80
½A+½W						1								1	.16
AP+M	1													1	.16
W+.05WA						1								1	.16
50A+50P	12	5	3	6	3	1								30	4.81
50A+25W+25P					1	1								2	.32
50A+50W	2	4	17	16	10	50	38	11	4	13	23	11	22	221	35.42
50A+20W+30B			1											1	.16
50A+50B	1						1	1	1					4	.64
60A+40W					1	2	1	1						5	.80
75A+25B							1							1	.16
75AP+25W						1				1				2	.32
⅔A+⅓W					2	1								3	.48
75A+25P				2	3									5	.80
75A+25W			1	2	7	30	32	9	10	14	8	17	32	162	25.96
Per well on equal units	5		2		2	1								10	1.60
50A+50AP		3											2	5	.80
100A	8	1	3	12	15	1		1						41	6.57
AHB	1													1	.16
Total	59	34	29	42	58	118	79	27	28	33	32	29	56	624	100.00

Symbols: A—acreage; B—bottom-hole pressure; f—factor; H—sand thickness; M—marginal; P—potential; W—well.

(Whereupon, at 12:30 p. m., the committee was recessed, to reconvene at 2 p. m. the same day.)

AFTER RECESS

(The hearing was resumed at 2 p. m.)

The CHAIRMAN. The hearing will be in order.

STATEMENT OF HINES H. BAKER, PRESIDENT OF THE HUMBLE OIL & REFINING CO.—Resumed

The CHAIRMAN. At the time we recessed, I think that we had your answer to the third question. I will ask the fourth question: Did the company initiating the increase in the price of crude oil do so because it had been losing business to competitors?

Mr. BAKER. Humble did not initiate the crude-oil price and therefore, is in no position to answer this question.

The CHAIRMAN. Maybe I should put the question, then, from your standpoint: Did your company, in increasing the price of crude oil, do so because it had been losing business to competitors?

Mr. BAKER. I did not get the last part of the question, sir.

No, that is not the reason for our increase.

The CHAIRMAN. I confess as we go along it requires an awful lot of constraint on my part, restraint to prevent myself from asking questions based on some of the answers that you give, Mr. Baker. Maybe I will get to that a little bit later. But I did not want it to be assumed the reason I was not asking any questions was because I was in accord with the answers you were making.

Mr. HESELTON. Could I be associated with you in that respect?

The CHAIRMAN. I have no objection.

5. How can the increases in crude oil, gasoline, and fuel-oil prices be justified today in view of our having the greatest proved reserves we have ever had, record rates of production, high inventories of products, high imports, and an excess of production capacity of a million barrels a day over current rates of production?

Mr. BAKER. It is not the level of supply alone which affects price, but the relation between supply and demand. In the years 1948–53, reserves of crude oil have increased 30 percent to record levels, but demand has increased more than 30 percent to record levels also. The estimated productive capacity of crude oil in January 1953 of 7,465,000 barrels daily was about 35 percent above the actual production in 1948, when all fields were producing at their maximum efficient rates. The reserve capacity that now exists is less than existed at the beginning of World War II, when demand was much smaller, and part of the reserve capacity is due to imports.

The CHAIRMAN. Is that your full answer?

Mr. BAKER. I think that is an answer.

The CHAIRMAN. If that is your answer, we will let it go at that. It is a short one.

Mr. BAKER. No, I am sorry; I have a further answer.

While product inventories may seem high relative to a year ago, that comparison is misleading because of refinery strikes in the second quarter of 1952 which reduced product stocks to subnormal levels. A proper comparison of changes unaffected by strikes is with 1951.

As of June 27, 1953, gasoline stocks of 147 million barrels were 7.8 percent higher than on June 30, 1951, whereas demand for gasoline in the second quarter of this year was more than 10 percent above the same quarter in 1951. As of June 27, 1953, stocks were higher than on June 30, 1951, by only 2.7 percent for kerosene and 4.3 percent for residual fuel oil. Distillate stocks were 18.7 percent higher than 2 years ago, whereas demand in the first quarter was about 14 percent higher. The warm winter was responsible for the relatively high stocks of distillate fuel oil, but with continuing increases in demand for this product these stocks will soon be in line with demand again. The increase in distillate stocks is small in relation to anticipated demands next winter.

The relation between increasing demand and supply and the effect of increasing costs accumulating over a period of years means that price must increase if supply is to continue to keep pace with increasing demands.

Mr. HESELTON. 6. How can the fuel oil price increase be substantiated at this time in view of the high level of stocks and seasonal ebb in demand?

Numerous oil commentators point to a lagging demand for fuel oils, and an overstocked position which it is hoped to cure by curbing production.

Mr. BAKER. Fuel oil prices are related to crude oil prices and in general will advance when crude oil prices increase. It should be kept in mind that fuel oil is in competition with coal primarily and for some period of time has been underselling coal. The American consumer of fuel oils has been enjoying the advantages of a relatively low price over a substantial period of time. Residual fuel oil is still underselling coal on the east coast on the basis of the current prices of $2.25 per barrel as compared with $10.81 per ton for coal. The increasing use of oil for home heating indicates that consumers prefer to use this convenient fuel instead of coal.

Mr. HESELTON. 7. Is the increase in the price of fuel oil an expression of a policy of discouraging consumers from using oil for fuel?

In 1948, the company which had led the prior crude oil price increase said:

> * * * the practicalities of the situation require price increases, not only to stimulate more production, but also * * * to check the expansion of a demand for fuel oils that has been growing out of bounds. The obvious fact, as has been frequently stated, is that oil cannot heat all of the homes of the country, nor can oil continue, as it has in recent years, to supply virtually all the increases in the Nation's energy load.

Mr. BAKER. May I ask, is that a statement from you in addition to the question?

Mr. HESELTON. First I asked the question. Then there was a quotation from the company which led the prior crude oil price increase. The question was:

Is the increase in the price of fuel oil an expression of a policy of discouraging consumers from using oil for fuel?

Mr. BAKER. We know of no policy of discouraging use of oil for fuel. On the contrary, the use of oil for fuel over a long period of time has increased relative to coal.

Mr. HESELTON. 8. Has domestic production been so restricted so as to jeopardize or reduce supply below current demand through the

manipulation of the rates of oil allowed to be produced by the Texas Railroad Commission, or other commissions?

Starting with November 1952, the amount of oil allowed to be produced in the State of Texas, a State that customarily contributes about half of the domestic total, was steadily reduced during the succeeding 7 months, by action of the regulatory commission.

Mr. BAKER. I don't think that I can agree with that statement, and I don't quite get the relation between what you are reading and the question.

Mr. HESELTON. I am reading the questions that the chairman put to you. The first part of the question was given, and then a statement of fact was given. That was, that the State commission had reduced for 7 succeeding months the amount of allowables each month.

Mr. BAKER. You are reading question No. 8; is that right?

Mr. HESELTON. That is right; I have read it.

Mr. BAKER. I have never seen all of these statements.

Mr. HARRIS. Has domestic production been so restricted so as to jeopardize or reduce supply below current demand through the manipulation of the rates of oil allowed to be produced by the Texas Railroad Commission or other commissions?

Mr. BAKER. My answer to that is that crude-oil production in Texas was in excess of demand in 1951 and 1952. Crude-oil stocks of Texas origin increased by 14 million barrels in these years. Production exceeded the consumption of Texas crude oil in 16 months during these 2 years, including all of the last 4 months in 1952.

In the first 6 months of 1953, crude-oil stocks of Texas origin have decreased only 1,300,000 barrels, or less than 1 percent. Meanwhile, total crude-oil stocks in the United States have increased by 6.5 million barrels, from slightly less than 272 million barrels at the beginning of the year to 278.5 million barrels as of June 20, 1953. This evidence shows that production has not been restricted to reduce supply below demand.

Mr. HESELTON. Why has the Texas Railroad Commission, since the increase in the price of crude oil, now raised the amount of oil which may be produced, although stating that production still exceeds demand by 400,000 barrels daily?

In announcing the change in allowables, the commission chairman stated that reduced refinery runs might head off cuts later, that next year would be a critical one, but that the oil industry could "go forward with a vigorous campaign if caution is exercised by all elements now."

Mr. BAKER. We know of no statement by the Railroad Commission of Texas to the effect that production still exceeds demand by 400,000 barrels daily. The allowables set by the Railroad Commission of Texas in its order for July allows for 1 more producing day in July than in June in consideration of the fact that the month of July has 1 more day than June. The effect is to make the daily allowable for July substantially the same as for June except for the effect of the completion of new wells during the month involved.

I would like to add this: that in its orders restricting the allowables for the State, the commission says how many producing days operators may have during that month—that is, for the State as a whole—and then there are some special days for certain fields that have peculiar conditions. The raising of 1 day in a month that is 1 day longer has very little effect.

Mr. HESELTON. Will you suspend just a moment? My colleague, Mr. Harris, reminds me that the chairman wanted not to have the committee members ask any questions at this point or, we believe, to have you add to the statement, but to get the record clear, and then you can add what you want and the committee members can ask you questions. The purpose of this is to get this in the record in sequence.

The next question is:

In what way do the sustained high earnings of the oil companies show a need for price increases to meet rising costs?

The 30 companies included in the study of the Chase National Bank show net income in 1952 of $2,020 million compared with $2,090 million in 1951. The 46 listed companies reporting to the Securities and Exchange Commission had net earnings in the first quarter of 1953 of $478 million compared with $489 million in the first quarter of 1952.

Mr. BAKER. The last general increase in the price of crude oil was made in December 1947 and its effects were realized during the year 1948. A comparison of the net income and assets of eight principal oil companies without large foreign operations shows that there has been a substantial decrease in their income and rate of earnings on investments since 1948 as is shown by the following tabulation:

Earnings and investment of principal domestic oil companies without large foreign operations

[Millions of dollars]

	Average total assets		Net income			
					Percent of average assets	
	1948	1952	1948	1952	1948	1952
Humble	$782.8	$1,083.3	$136.1	$145.3	23.8	13.4
Standard (Indiana)	1,384.1	1,882.2	140.1	120.0	10.1	6.4
Phillips	509.3	851.3	72.6	75.3	14.3	8.8
Continental	235.6	336.5	54.2	38.1	23.0	11.3
Ohio	183.6	274.6	49.3	39.4	26.9	14.3
Skelly	149.0	243.2	38.9	28.0	26.1	11.5
Shell	587.3	840.5	113.8	97.0	19.4	11.5
Amerada	61.5	89.8	22.6	15.9	36.7	17.7
Total	3,893.2	5,601.4	677.6	559.0	17.4	10.0

Mr. HESELTON. In view of the record drilling in 1952 of nearly 46,000 wells, and a continuation of drilling through the first quarter of 1953 at the same rate as 1952, what is the need of a price increase as incentive for additional drilling of wells?

It is noted that in the first quarter 1953, drilling of wildcats even exceeded by 240 the number drilled in the first quarter 1952.

Mr. BAKER. Although drilling is still at about the same rate as in 1951 and 1952, it has not increased in line with demand and the number of oil-well completions is being reduced relatively by the larger proportion of dry holes drilled. Total completions in 1952 of 45,840 were 6,000 more than in 1948, but the number of oil-well completions was only 881 greater, as the percentage of oil wells to total completions dropped from 56.8 in 1948 to 51.2 in 1952. Despite record drilling activity, the number of oil-well completions in 1951 and 1952 was less than in 1950 and actually less than in 1937. In 1937 the total number

of completions was only 32,560, but 72.5 percent of all the wells drilled were completed as oil producers. The increasing proportions of dry holes is an indication of the greater risks and costs being experienced in the search for oil. In the first 4 months of 1953 oil-well completions were about 7 percent less than a year ago, according to the reports of the Bureau of Mines.

Mr. HARRIS. May I ask unanimous consent—all of us have had an opportunity to read over again the questions, and the replies which Mr. Baker is giving are prepared in a memorandum, and since we have had an opportunity to look over the replies to these remaining questions, I ask unanimous consent that the questions remaining, and his replies thereto, be included in the record, in view of the rollcall which is underway.

Mr. HESELTON. I was about to suggest that we could do that to move along here. Certainly the members of the press and the people who are here in the room who care to look at the questions and the answers, can examine them during the time we are away to answer the rollcall.

12. How far has the change in the rates for ocean tankers affected downward the price of heating oils on the eastern seaboard, inasmuch as the increased rates for tankers was urged a year ago as reason for a need to increase such prices?

The committee was so apprised of the situation in hearings last year.

Mr. BAKER. Since we are not a marketer on the eastern seaboard and do not operate or charter tankers or import crude oil or products, we are not by experience or knowledge qualified to express a worthwhile opinion in reply to this question, which can be better answered by those familiar in detail with the facts.

Mr. HESELTON. 13. Why has California, a traditionally large supplier of oil, been forced to import oil from other areas to supply west coast consumers, and to increase prices, reportedly to meet the higher costs of such imports?

In testimony before the committee this past spring, the reasons were not made clear.

Mr. BAKER. Since we import no oil and produce no oil abroad and are not familiar either with the costs of production abroad or transportation from abroad to this country, we think this question should be directed to operators who by experience and knowledge are best prepared to give a satisfactory and useful reply. It is well known, however, that demand in California has grown more rapidly than production in the area, and that additional supplies must be secured from outside sources. The increase in price should stimulate further exploration and increased production.

Mr. HESELTON. 14. Will the increased prices of crude in this country now be met by greater imports from Venezuela, the Middle East, or elsewhere, because crude oil prices there are lower, or will prices there be increased so this will not follow?

Will our companies operating abroad import more into this country from their overseas sources, in effect, thus underselling themselves here?

Mr. BAKER. Since we do not produce oil abroad nor import oil or products, and are not intimately familiar with operations or prices in Venezuela, the Middle East, or in other foreign countries, we do not

feel qualified to express an opinion on these questions. They can best be answered by those intimately familiar with the facts.

Mr. HESELTON. 15. Will the new foreign voluntary agreement just entered into by our companies operating abroad permit the distribution of any world surplus of oil that might arise, such as were Iranian production again to materialize, just as it covered the distribution of the deficit when the Iranian refinery at Abadan was shut down?

Whether it covers surpluses as well as shortages is not apparent.

Mr. BAKER. Since we are not a party to any foreign voluntary agreement and are not engaged in the production of oil abroad or in the importation of oil into this country and are not familiar with the arrangements or operations involved, we are not in position to be helpful in answer to this question.

Mr. HESELTON. 16. Do the increased prices of gasoline and fuel oil merely represent a foretaste of the higher prices which the major oil companies have intimated would follow the enactment of any policy to restrict imports?

Testimony by importing companies in recent hearings of the Ways and Means Committee was to the effect that a general policy or discouraging imports would force high prices on consumers.

Mr. BAKER. Humble is not an importer of crude oil or petroleum products. In connection with this question, however, it should be kept in mind that there has been no reduction in the total volume of crude oil imported within recent months. We believe that the crude oil and product price increases that have been recently occurred are the result of the operation of the economic forces in the interplay of supply and demand and particularly the very substantial increase in costs that have occurred since the last general advance in the price of crude oil in December 1947. It should be pointed out that the increases that have been made cover only a part and far from all of the increases in costs of exploration, production, refining, and marketing since the last general advance in prices. We do not believe that the United States can continue to have a healthy domestic industry to meet a growing demand and provide for national security if the price level is determined by imported oil.

Mr. HESELTON. 17. Or are the higher prices for crude oil the result of some understanding reached to avoid enactment of a policy restricting imports?

It is reported through the press that a spokesman for the independent producers in commenting on the increased price of crude oil, stated: "Undoubtedly it will lessen the pressure for immediate legislative action on the imports problem."

Mr. BAKER. Humble is no party to any understanding to avoid the enactment of a policy restricting imports and knows of no such understanding among others. It has been our view, repeatedly stated publicly, that imports should supplement domestic production and should bear a reasonable relationship to domestic production as set forth in a National Oil Policy for the United States adopted by the National Petroleum Council in 1949. As stated in reply to question 16, we think the advance in the price of crude oil and products has been the natural result of the operation of the forces of supply and demand and the long-range effect of continually increasing costs.

The CHAIRMAN. Now, as I understand it, Humble is a subsidiary of Standard Oil of New Jersey; is that right?

Mr. BAKER. Standard Oil of New Jersey owns about 72 percent of the stock of the Humble Oil & Refining Co., but it does not exercise any management controls.

The CHAIRMAN. I also understand that Humble produces crude oil in quantities greater than it uses itself.

Mr. BAKER. That is correct.

The CHAIRMAN. I also understand that Humble buys larger quantities of crude oil for resale than it produces.

Mr. BAKER. Yes, sir.

The CHAIRMAN. Now, so that I can get this relationship right, Esso-Standard, then, is only a refiner and marketer, while Humble is in a position to answer some questions on behalf of Standard Oil which ostensibly Esso cannot; would that be true?

Mr. BAKER. I don't know whether I can answer questions for Standard Oil of New Jersey or not. I can answer questions——

The CHAIRMAN. I did not mean that you should, but I meant there are some questions that I can ask of you that you would be better qualified to answer than somebody from Esso would be.

Mr. BAKER. I can answer no questions for Standard Oil of New Jersey, because I have no relation to them.

The CHAIRMAN. I realized more than once during these hearings that there seems to be a lack of desire to be associated together, but I did not know that that applied to parent and child.

Mr. BAKER. What I mean to say is this, Mr. Chairman: We are in the business of producing, transporting, refining, and marketing crude oil and its products, an integrated company, and we are informed in the area of production and crude-oil marketing; whereas I take it that Mr. Burks, who is a witness here for Esso-Standard, is primarily interested in the field of refining and marketing. To that extent I think our answers may be considered together.

The CHAIRMAN. Now, Mr. Baker, as you realize by this time, I am sure, this committee is concerned in these hearings with the increased price of crude, as well as that of oil products. Now, on the basis of that, I want to ask some questions.

Will you tell us just why, on June 15, before the night had passed, your company followed Phillips Co. in raising your posted price of crude oil by 10 to 35 cents—I would say an average of 25 cents—per barrel?

Mr. BAKER. Well, as I stated on my direct testimony——

The CHAIRMAN. The point I am trying to get clear in my mind is why, within a few hours or a few minutes, whenever it happened to be, your company took the same action that Phillips had taken.

Mr. BAKER. Well, we didn't take the same action that Phillips took, in the first place.

The CHAIRMAN. Except, I meant to say, from the standpoint of increase.

Mr. BAKER. We increased; yes, that is right. But it was not in the same way.

The CHAIRMAN. I understand. You gave a different price according to different grades of oil.

Mr. BAKER. That is right.

The CHAIRMAN. But the net result was an increase.

Mr. BAKER. That is right. Now, as I stated in my statement which I read to the committee, we had been considering for some time this

question of crude-oil prices. Our costs and the costs in the industry had gone up and continued to increase, as I stated, and no increase in price had been had since 1947.

We had been studying this whole question of increasing crude-oil prices, and were considering moving out ourselves.

Now actually, Phillips named a price, and we were primarily interested in adjusting these inequities that existed between the various grades of crude. We moved hurriedly, because we thought that the Phillips action might set a pattern, a flat price increase across the board, and we felt that the market justified an increase and that an increase would result.

We were quite anxious, before too many people in the industry might move, if they did, to try to erase these inequities by naming prices that we thought were very much more equitable than a straight 25-cent increase.

The CHAIRMAN. Over how long a period had you been making that study?

Mr. BAKER. Well, we had been studying these prices and conditions even before the controls were released, and we continued to keep abreast of it closely in the intervening period.

As a matter of fact, as a crude-oil merchant handling the quantities of crude that we handle, we try to keep on our toes at all times in regard to market conditions.

The CHAIRMAN. Then you had been making a study of it for several months?

Mr. BAKER. Yes, sir.

The CHAIRMAN. I assume that Phillips Co. had made a study of it for several months.

Mr. BAKER. I would assume that they were abreast of it.

The CHAIRMAN. Is it not a rather strange coincidence that both studies would come to the point where the increase of both companies would come at the same time?

Mr. BAKER. Not at all.

The CHAIRMAN. Not at all?

Mr. BAKER. No; it isn't at all strange that when a competitor in the business moves, if the conditions in the judgment of another purchaser are such that that purchaser thinks that the market justifies the increased price, he moves. It is a perfectly natural competitive condition between people in the business, and it is the way the market functions, not only in this business but others.

The CHAIRMAN. It seems significant to me that two companies making studies of the same subject would come to the same conclusion that an increase was necessary within a few hours of one another after a study of several months.

Mr. BAKER. We had already decided for some time that a crude-oil price increase was a fully justified thing.

The CHAIRMAN. When did you come to that conclusion?

Mr. BAKER. We were of the conclusion that general basic conditions justified an increase, before the controls were withdrawn.

The CHAIRMAN. Now, the controls were removed in the early part of the year, as I understand it.

Mr. BAKER. That is right.

The CHAIRMAN. If you were satisfied at that time that the condition justified an increase, why did you not do it then instead of waiting until the Phillips Co. had done it?

Mr. BAKER. As I said, we considered that the long-range forces, the costs and the general increase in demand that is going on, justified a price increase. We did not move in the earlier period because, as I stated in the general statement, as we came out of the winter we had a high inventory on distillates due to the warm winter. The conditions of the inventories and the general market conditions at that time did not seem to us to be the right timing for a price increase. We would doubt that the market would support it at that time.

The CHAIRMAN. What was the difference in the basic conditions on June 15 that did not exist at that earlier time to which you have just referred?

Mr. BAKER. There was only a difference in short-run conditions, and there was no difference in the long-run, basic conditions. A price increase in crude, we think, had been justified from the middle of 1950 on, but we were restrained from the end of 1950 on by the price-control orders which went into effect in January of 1951.

The long-range forces, Mr. Chairman, were all pointing toward an increased price for these products for petroleum and its products in the same way that commodities in general had gone up.

The CHAIRMAN. Well, we have this situation as I see it from your testimony, or your answers to questions that I have just asked, that you had studied the situation for a period of months.

Mr. BAKER. Yes, sir.

The CHAIRMAN. And that you had come to the conclusion several months prior to June 15 that an increase was due but that you withheld making such increase because you were fearful that the market conditions might not sustain it.

Mr. BAKER. To state it a little more accurately, what I meant to say was at the time the controls were withdrawn, we did not think it was an opportune time to make it.

The CHAIRMAN. You mean it was not opportune from the standpoint of public psychology, public reasoning, or for any other reason.

Mr. BAKER. Primarily because of the short-run supply situation, which I explained a moment ago.

The CHAIRMAN. Very well. Now continue. On June 15, when the Phillips Co. gave expression to the same decision that your company had reached, you followed suit immediately, within a matter of hours, did you not?

Mr. BAKER. We followed suit to the extent of increases.

The CHAIRMAN. Would you have done it if they had not?

Mr. BAKER. Well, I am not sure just when we would have done it, but I think we would have made an advance before very long.

The CHAIRMAN. Then it would seem from that that when one company makes an increase, another one is likely to make it, and that is what adds up to a spiral of inflation because when Phillips did it, you did it; when you did it, others did it, and as others did it, others did it, until we get to a point of inflation, the very thing that your company, its officials, and others, have indicated that they wanted to prevent.

Mr. BAKER. My answer to that, Mr. Chairman, is this:

All of the basic conditions for justifying a price increase were in existence. We were far behind other commodities in price relationships.

The CHAIRMAN. Mr. Baker, to my way of thinking, I do not see that it necessarily follows, for instance, as you have indicated, because the cost of living went up, that that would entitle you people to go up in the charge that you would make to the consumer and still further raise the cost of living.

Mr. BAKER. Let's make that concrete, Mr. Chairman. In carrying on our business, the things that influence our costs are the costs of labor and material, and the things that we have to buy and use in our process of exploration, production, transportation, refining, and sale of petroleum and its products.

As I have pointed out here, all of our costs had gone up because the prices of other products had gone up that we had to consume and use. And, in addition to that, we had special additional costs growing out primarily of the fact that we were getting more dry holes, we were having to drill deeper, we were having to complete our wells in less satisfactory sands, with higher costs in testing and completing wells. Those things must, of necessity, have an effect on our business. But the fact that prices in general had gone up made our costs increase.

We can't stay in business over a long period of time with prices rising and our holding the line, and which we had been holding for 5 years.

The CHAIRMAN. For the moment I will take your statement that it was a question of costs that caused you to enter into this arrangement of increasing your price of crude.

Mr. BAKER. Not solely, as I explained in our statement. The long-range supply forces, the continued increase in or expansion of demand, and the necessity of our meeting that increased demand created a long-range force tending to move the prices up in the supply-demand relationship.

The CHAIRMAN. Before we get too far involved with the question of costs, I want to ask whether you found any supply sources lost between the time Phillips increased the price and you did so?

Mr. BAKER. No; there is no relationship between the question of loss of supplies between the time Phillips increased its price and our price and this question of these long-range forces that I am talking about and these costs. They didn't change within the day.

The CHAIRMAN. I asked that questoin because it would seem as if your president, Mr. E. C. Wiess, testifying on a former occasion——

Mr. BAKER. H. C. Wiess, Harry C. Wiess.

The CHAIRMAN. Well, we will get the name correct, if nothing else.

Mr. H. C. Wiess, on October 16, 1947, following the increase that had been announced by an oil company, which raised its posted price, and which said it did so because of the need to protect supplies, your Mr. H. C. Wiess, on October 16, 1947, stated that your company had increased prices "to protect badly needed supplies for Humble and its customers."

And, again, on December 8, in meeting the 50-cent-per-barrel increase, Mr. Wiess said it was required in order "to protect its supplies and in fairness to those from whom Humble purchases oil."

Mr. BAKER. Yes, sir.

The CHAIRMAN. That was a different reason than what you have given here today, was it not? He based it entirely upon the basis of necessity of supply, did he not?

Mr. BAKER. I would like to point out that we are dealing with a dynamic business, that has to meet conditions which vary from time to time. At the time of the 1947 increase in prices we were in a condition of short supply in this country. We had come out of the war and were producing up to the maximum efficient rate at the end of 1945, at the end of the war, and we were trying to get back on the supply side, up to demand.

The conditions existing at the time Mr. Wiess made that statement laid emphasis upon a then existing short relationship between supply and demand. The price which we made at that time was fully justified by those conditions.

The CHAIRMAN. I do not have all my figures here before me at this time, but I will take the answer you have given and give it further consideration and look into it. It seems very strange to me that every time there is a price increase, and this committee holds hearings to inquire why, that there has been unanimity of action, a disposition to follow the leader, so to speak, and when we inquire into it we find a different reason given every time. I am wondering if we will ever run out of reasons.

Did that question of supply enter, in any respect, into your reason for increasing on June 15 of this year?

Mr. BAKER. As I undertook to explain in the statement I made, we were not motivated in this case by an effort to protect connections at the time, or supplies at the time. We have a long-range set of forces at play here that occasioned the increase. You referred to Mr. Wiess' statement in regard to the price increase in 1947.

The CHAIRMAN. Those quotations that I have given you were given to this committee in its hearing at that time.

Mr. BAKER. Yes. That is, they were in response to a questionnaire, I believe.

The CHAIRMAN. I do not know at this minute whether it was voluntarily given. I assume it would be in answer to a question.

Mr. BAKER. In 1946, July 25, we made a 25-cent increase in the price of crude, and at the time we made that increase our statement released said this, and I am quoting:

> Humble Oil & Refining Co. today increased by an average of 25 cents a barrel the price it pays to producers and royalty owners for the crude oil purchased. H. C. Wiess, Humble's president, stated in announcing the change, that the advance takes into account the great increase in cost that has occurred since 1941. He stated that it is impossible for petroleum and its products to continue selling for about the same price as 5 years ago, whereas other wholesale prices have increased one-third and petroleum industry costs have increased even more since 1941. He said that the new prices are at a level repeatedly recommended by several Government committees and agencies several years ago, which recommendations were ignored.

We have almost a parallel situation here. We were frozen by controls during the war, and in the meantime our costs continued to mount, but we could not do anything about it under the controls. We have been frozen here for 2 years while our costs have continued to mount. Other products have gone up in price, but crude petroleum has not gone up in price during that time. The economic forces all

call for an adjustment of crude-oil prices. It has been 5 years since the change had occurred in this instance.

The CHAIRMAN. Of course the fact that prices may have gone up in some instances does not necessarily prove that it was necessary for the oil industry to go up.

Now, it may be that they were justified. Do you understand what I am getting at?

But just to state the argument that because something else has gone up, "therefore we ought to go up, we have a right to go up," that doesn't prove anything. There have been no figures produced to the committee that I know of up to this present moment, outside of general statements that have been made, that "our costs have gone up," that would justify the 25 cents a barrel increase.

Now, maybe you have the figures, maybe all the other companies have the figures. But they have not presented them to this committee and there has been nothing more than generalization.

Mr. BAKER. I believe you must have been away when I was reading my statement this morning, sir, on that point.

The CHAIRMAN. Maybe I was.

Mr. BAKER. I would like to call your attention to some very specific statements on costs that were made this morning by me.

The CHAIRMAN. I heard you comparing it with living costs and one thing and another like that, which I did not think had any bearing on the subject.

Mr. BAKER. Let me read you a part of this.

The CHAIRMAN. This is what is making living costs go up, this sort of thing.

Mr. BAKER. Let me read you from the statement.

The CHAIRMAN. Then when living costs go up, this helps put them up, then you say "We have to put our price up because living costs are up."

You just go in a circle. Now, if you have any figures that are already are in the record, I will be glad to hear them.

Mr. BAKER. The principal increases in costs, in addition to a 31 percent increase in the rates of pay to our employees, as I pointed out, and the increase in the price of steel which makes up a very large part of our material costs, in the drilling of our wells and the building of our plants, 5 cents a barrel increase in the ad valorem and severance taxes in Texas and Louisiana, I pointed out that the average cost per well completed by Humble in 1952 was $106,500, or 29 percent higher than the cost of the average well in 1948, and that we were experiencing a large proportion of dry holes. And 35.9 percent of the wells drilled in 1948 were dry, while 41.7 percent in 1952 were dry, or nearly 5,000 more wells that were dry.

In Humble's case, our dry holes costs had gone up 62 percent since 1948. Those are the very concrete and specific facts as to the costs of our doing business.

The CHAIRMAN. Yes; except it deals with percentages and not in actual figures as to what your costs were.

Mr. BAKER. Well, it is not——

The CHAIRMAN. At the same time that your costs were going up, your earnings were going up also, were they not?

Mr. BAKER. Not proportionately.

The CHAIRMAN. What were your earnings, gross and net, in 1942, and for the last 10 years?

Mr. BAKER. I will give you the figures for that period, but before doing so I want to call attention to the fact that we are comparing conditions in 1948, when the last price increase was made, with conditions in 1952, and that our earnings have gone down in 1952 as against 1948 by $41 million. In other words, our earnings in 1952 were $41 million less than in 1948.

The CHAIRMAN. Less than 1948?

Mr. BAKER. Yes, sir.

The CHAIRMAN. I wanted them for each year.

Mr. BAKER. Yes, sir; I am going to give them to you for the whole period, Mr. Chairman.

The CHAIRMAN. Do you have them for 1943? I want to have those figures, too.

Mr. BAKER. I will put this in three columns. For the year ending December 31, they are as follows: I will give you our total assets, our stockholders' investment, and our net income. I am giving you the round figures.

The CHAIRMAN. Will that show what your earnings were?

Mr. BAKER. Yes, sir.

The CHAIRMAN. All right.

Mr. BAKER. The first column is total assets, the second column is stockholders' investment and the third column is net income, net earnings.

The CHAIRMAN. Net income? I did not get that.

Mr. BAKER. For 1943, total assets $478 million; stockholders' investment, $363 million; net income, $45,700,000.

For 1944, total assets, $521 million; stockholders' investment, $396,500,000; net income $60,500,000.

For 1945, total assets $559,600,000; stockholders' investment, $444,600,000——

Mr. YOUNGER. $444 million, is it?

Mr. BAKER. Yes, sir; thank you. And net income for 1945 was $70,900,000.

For 1946, total assets, $591,500,000; stockholders' investment, $489,200,000; net income, $71,800,000.

For 1947, $704,200,000, total assets; stockholders' investment $559,400,000; net income, $124,100,000.

For 1948, total assets, $861,400,000; stockholders' investment, $673,500,000; net income $186,100,000.

For 1949, total assets, $854,900,000; stockholders' investment, $722,100,000; net income, $120,500,000.

For 1950, total assets, $935,900,000; stockholders' investment, $779,600,000; net income, $129,400,000.

For 1951, total assets, $1,060,400,000; stockholders' investment, $865,200,000; net income $169,500,000.

For 1952, total assets, $1,106,200,000; stockholders' investment, $928,500,000; net income, $145,300,000.

These net income changes over this period are affected materially by an increase in the volume of operations and by a general change in the value of the dollar, and by the fact that large investments made prewar at low cost are contributing greatly to earnings because

of inflation, while depreciation and depletion charges on the production are far less than the current cost of replacing the production.

I would like to call attention also to the fact that the market places a value on Humble in excess of $2 billion. That is to say, 36 million shares, selling at $63 a share, is $2,269 million.

Based on the 1952 income, that is approximately 7 percent.

Mr. HESELTON. Mr. Chairman, could I ask for one other figure? I notice that in the chart I have here of Humble's reports, the gross income in 1952 was $975 million——

Mr. BAKER. That is not gross income; that is total assets.

Mr. HESELTON. Just a minute. I am addressing the chairman. And this is listed at 103 percent in contrast to 1951. So in this period we are really talking about, I wonder if they mean the gross income for 1951.

The CHAIRMAN. Do you wish to ask the witness that question?

Mr. HESELTON. Yes; I would. Have you the gross income?

Mr. BAKER. I don't have the gross income tabulated here for all of these years.

Mr. HESELTON. Do you have it for 1951?

Mr. BAKER. Yes; I do. The gross income for 1951, gross operating income, I take it is what you want, is $951,051,052.

Mr. HESELTON. Thank you.

Mr. BAKER. The gross income for 1952 was $975,064,707, or in other words about $24 million higher, yet our net income for 1952 is $24 million less than our net income for 1951, which bears out the point which I have been making, that our costs are up. In other words, we had $48 million more cost in 1952 than we had in 1951.

Mr. HESELTON. Mr. Chairman, might I observe that that does not appear except as a generality. As you pointed out previously, the depletion allowance is very substantial, and just what it was for 2 years or this period we don't know. It is just an assertion that costs are up and that accounts for a drop in net income. What those costs are would be very important information, it seems to me.

The CHAIRMAN. It would seem to me that it justifies what I said a few moments ago, that we have been receiving generalities rather than specific information. The witness has said in answer to your question that there was an increase in costs of $48 million between 1951 and 1952. But further than that there is no information. I do not like to take the time of the committee and witnesses who are waiting to be heard to go into all these details of accounting. I wish it would be possible for the witness to submit to us a statement of those figures together with an explanation of that increase cost that you have referred to of $48 million.

Mr. BAKER. A comparison of those 2 years is shown in our annual report for 1952 which I take it Mr. Heselton had before him, based on his question.

Mr. HESELTON. No; I have not.

Mr. BAKER. Well, I have here the statement of cost, expenses, and taxes for those 2 years, which I will be glad to give to you. Costs and operating and general expenses for 1952, $648,362,049. For 1951, $610,040,247.

The CHAIRMAN. Would it be possible, Mr. Baker, to submit for the record the statement from which you are now reading so it could

be made a part of our record with such an explanation as you wish to make, either now or afterward?

Mr. BAKER. I will be glad to.

Mr. PELLY. In that respect, I wonder if we can put the depletion and amortization and depreciation in also. We have those from the other companies. It would be interesting.

The CHAIRMAN. I suppose Mr. Baker could give that information. Did you hear the request?

Mr. BAKER. You are talking about our accounting figures on depreciation and depletion?

Mr. PELLY. Yes.

Mr. BAKER. That is included in this list.

Mr. PELLY. Mr. Chairman, could I ask a question?

The CHAIRMAN. Yes.

Mr. PELLY. What is the estimated increase in your income that will be as a result of this increase in the price from 10 to 35 cents a barrel? What do you figure it will increase in a year, or in a 12-month period in your profits?

Mr. BAKER. Our gross production, which I just figured out, last year——

Mr. PELLY. You sold 521,000 barrels a day?

Mr. BAKER. What we have to base this figure on, Mr. Pelly, is our production. Our production for 1952 was 349,600 barrels a day, and for the year that would be 128 million barrels.

Mr. PELLY. Your statement shows the actual sales were 521,000 barrels a day, and your purchases were 427,000 barrels a day, so you have to pay more for what you buy.

Mr. BAKER. We pass that on in the sale. So our——

Mr. PELLY. You cannot quickly figure that out, I can see that, because you have different grades of oil. But I thought maybe you had estimated, as head of your company, and you would know what your income should go up to as a result of this adjustment in prices.

Mr. BAKER. The production in 1952, using that as a base, was 127,954,000 barrels. The value of the production would be 2½ times that. This increase averages about a quarter of a dollar a barrel. The gross, on the basis of a year's income, based on last year's production, would be $31,980,000, against which, of course, you have insofar as your net income is concerned, taxes and all of that sort of thing.

Mr. PELLY. I do not think it is fair to you to ask you to figure it out that way, because you are buying, are you not? You are paying a higher price for what you purchase?

Mr. BAKER. Well, since we are refining less than we produce, and are selling a part of our own production, we are selling all that we buy, and we would not stand anything on that. The cost would be passed on. We would not be affected by it. So I think for practical purposes, roughly you would figure that it is involved in the amount of our production.

Mr. PELLY. Last year you made 15 percent on your net worth? Those are your own figures, $938 million investment and $145 million profits, which is 15 percent, I think. This $31 million, if it is an increase, is going to give you a pretty high earning; is it not?

Mr. BAKER. Yes, we will have pretty high earnings this year.

Mr. PELLY. Higher than any other companies reporting.

Mr. BAKER. I don't know what the net amount will be, when you consider the total income and expense statement.

Mr. PELLY. The point I am getting at is you apparently were not trying to protect your connections the way that the Phillips Co. was when they raised their posted price, according to your statement. You just thought your expenses were going up.

Mr. BAKER. Not only our expenses but the expenses of these customers that we have. We have a long-range relationship with our customers, of course.

Mr. PELLY. Do you compete for connections with the Phillips Co.?

Mr. BAKER. There is very strong competition for connections with all of the purchasing companies in our area, and in many fields we are competing. What I was saying to Mr. Wolverton was this price change was not made because we were afraid of immediate loss of connections to Phillips on account of this particular change in price.

Mr. PELLY. Thank you, Mr. Chairman.

The CHAIRMAN. I have been trying to figure out how much that is per day. Do you have a slide rule there so you can tell me how much that is per day?

Mr. YOUNGER. Mr. Stevenson said it is $80,000 a day.

The CHAIRMAN. That is coming pretty close. I had it $87,766. So we will take it at $80,000. That is a pretty good increase per day, is it not?

Mr. BAKER. Yes, sir; it is a considerable increase, but it still does not offset the cost.

The CHAIRMAN. Having in mind that there is a difference of about a hundred thousand barrels per day—is there not, between what you buy, and what you sell? I am trying to carry in my mind the figures that you gave this morning. I think it was 400,000 and some as against 500,000 and some. It was approximately a hundred thousand barrels.

Mr. BAKER. I will give you those figures again. We produce approximately 350,000 barrels. We refine approximately 250,000 barrels. We purchased approximately 427,500 barrels in 1952, and we sold about 521,600 barrels a day, so what we did, in effect, was to sell all of the oil that we bought, plus approximately 100,000 barrels a day of our own production.

The CHAIRMAN. Well, whatever way you figure it, it is a very considerable amount.

Now we get back to the question of the increase in price put into effect back there in 1947, that increase was first posted, I think, as of November 28, and you people, Humble, posted it on December 8. That was a period of approximately 10 days. In this instance it wasn't even 10 hours. How did it happen that in 1 instance it was 10 days before you could make up your mind what to do, and in this instance it was only less than 10 hours?

Mr. BAKER. I don't recall the exact reason for the delay in 1947. I have undertaken to explain rather fully the reason why we moved quickly here, because we were hopeful that the market would settle out on the prices which we named to erase these inequities that had grown up over the years between the prices of the various grades of crude, so that the prices paid would more nearly approximate their real values.

The CHAIRMAN. Was your action on June 15 the result of any knowledge that you had that Phillips would do that?

Mr. BAKER. I had no knowledge of what Phillips might do.

The CHAIRMAN. You had no knowledge that there would be any increase until they did so?

Mr. BAKER. None whatsoever.

The CHAIRMAN. Then what did Mr. Rathbone mean in his statement, to which reference has been made on several occasions, in May of this year when he said this? "It has been generally known in the industry that price adjustments were in order." What I would like to know is what do you mean that it was generally known, and that it was generally known in the industry? If this came to you as a surprise on the 15th, it couldn't have been a surprise to Mr. Rathbone, in view of the fact that he has stated that it was generally known in the industry. What I am trying to get at is why he would make a statement like that if it was not generally known.

Mr. BAKER. I think it is a perfectly understandable statement to a man in the industry who is familiar with conditions, and that is this, that all the people in the industry are familiar with the cost increases that have occurred during the 5 years since there has been a price adjustment. They were familiar with the supply-and-demand situation, and that those did justify price adjustments. As I read in our statement this morning, we pointed out in our annual report earlier in the year that conditions warranted price increases basically, and that if the industry was to carry on and continue to meet the increasing demands at the costs it was having to pay, it would have to have a price increase. That, I think, was well understood in the industry. That is why I say, in my answer to your question, No. 3 I believe it is, that I attach no particular significance to Mr. Rathbone's statement. I could have made the statement as well myself, or any number of people in the industry could have truthfully made that statement at the time.

The CHAIRMAN. But you could not have said who was going to do it or when they were going to do it, is that right?

Mr. BAKER. Each fellow would have to make up his own mind as to when he might move to do something about it, as to whether he was going to move at all.

The CHAIRMAN. Then when he makes up his mind to move, that helps the others to make up their minds, is that right?

Mr. BAKER. Well, it might.

The CHAIRMAN. Evidently it does.

Mr. BAKER. Mr. Chairman, the people in business very frequently test out the market by making an advance in the price without knowing, necessarily, that the other people are going to follow, that their judgment as to what the market will stand is justified. For instance, just in September 1948, Phillips increased the price of crude another 35 cents. I assume that it was hopeful that the others would meet it. A few did. And we didn't think it was justified, and issued a statement at the time that we thought the supply situation didn't warrant a price increase and we did not increase. The matter stayed on for a time and Phillips and all those others who had posted an increased price dropped back down and canceled out their price increase.

You heard Mr. Willetts testify here yesterday that in February this year they tested out the market by making an advance of a cent

a gallon in gasoline. They thought, he said, that the market justified the increase. The rest of the industry did not think so and they did not follow. As a consequence he withdrew his advance and was forced back to the lower price by competition.

When Phillips made its advance on June 25, it is quite evident that the purchasers in the market thought that the general judgment that there should be a price increase was sound judgment, and the market established a price, not Phillips' price, but another price, established as a result of the market conditions.

Mr. HESELTON. Mr. Chairman, may I ask a question?

The CHAIRMAN. Yes.

Mr. HESELTON. Did you say the purchasers thought it was a sound judgment?

Mr. BAKER. I say the purchasers must have thought it was a sound analysis or they wouldn't have followed.

Mr. HESELTON. You do not mean purchasers in the sense of the people who pay the freight at the lower end?

Mr. BAKER. I mean the crude-oil purchasers who name these prices.

The CHAIRMAN. I am a little lost to understand this.

Assuming that there is increased cost that you speak of, with your total assets increasing from 1943 each year, without deviation, from $478 million to $1,106,200,000 in 1952, and with your stockholders' interest increasing during that same period from $383 million, and without deviation each year showing an increase, until it reached $928,500,000 in 1952, and with your net income increasing with 1 or 2 exceptions from $45,700,000 in 1943 to $145,300,000 in 1952, I cannot understand where the element of cost looms so big that the public should be charged for that, in view of the earnings that the company was making.

Mr. BAKER. Well, I pointed out at the time I gave the figures that these changes in total assets, stockholders' investment, and net income are all affected by a number of factors. The first factor is an increase in the volume of operations. During the late 1920's and the 1930's we acquired a large number of very valuable oilfields or sizable units in a large number of very valuable oilfields, including sizable holdings in east Texas—Conroe, Webster, Tomball—and a number of the fine fields.

We acquired those at relatively low cost. Before the war that production was held at a very low level. For example, the Webster field at the beginning of the war was producing about 7,500 barrels of oil a day. During the war the production from those fields was greatly increased. For example, to use an illustration, the Webster field went up from 7,500 barrels a day to nearly 60,000 barrels a day. Since that time we have been producing increasing quantities of crude. In addition to that, we have been acquiring substantial holdings and drilling a large number of wells, and we have been increasing our refining facilities, increasing our sales facilities, and carried on a continually increasing volume of business. Also, I would like to point out that the dollars that you are looking at in the 1952 figure are not the same dollars you are looking at in 1943, because in the meantime the value of the dollars depreciated very substantially. I don't have the figures, but those dollars are not the same dollars in purchasing power. They are very substantially less dollars.

Mr. HESELTON. You think that doing this is going to help that situation at all, sir?

Mr. BAKER. What is that?

Mr. HESELTON. Do you think that what you are doing in this, and what the industry is doing, will help that situation at all?

Mr. BAKER. I think what the industry is doing in this instance is to the long-range interest of the consumers in this country, because I think that if this industry is to continue to provide the necessary crude oil to meet the constantly expanding demand for the country, and if it is to maintain and provide anything like the reserves that the Government is insisting all the time that we should maintain, we have to have prices that will offset these higher costs to enable us to make the investments that are necessary to find the oil, to develop it, and to produce it. I think that very definitely this price increase for an industry such as the petroleum industry that is undertaking to provide this country not now but in the future with its necessary gasoline, fuel oils, and other petroleum products, will be in a better position to perform the service that it should perform for the country as a result of this price advance, and that it is fully justified.

Mr. HESELTON. Do I understand you to be a lawyer?

Mr. BAKER. Yes; I am a lawyer.

Mr. HESELTON. I might have made a motion to the chairman to strike that entire answer as perfectly unresponsive. Any court in the land would grant it. You have gone all around the map. I asked you if what you were doing was going to affect what you are complaining of, and that is the decrease in value of the purchasing power of the dollar. Will you try to answer that directly yes or no?

Mr. BAKER. I think——

The CHAIRMAN. If a lawyer can answer a question yes or no, it will be surprising.

Mr. HESELTON. It would surprise me, too.

Mr. BAKER. I am not sure that I could say that it has the effect of depreciating the value of the dollar, although I would say that any increases in prices, in a sense, are inflationary.

Mr. HESELTON. Absolutely. Thank you.

The CHAIRMAN. Gentlemen of the committee, I realize I have taken considerable time. If we continue here the rest of the evening I would not be able to finish what I have in mind to ask. You folks have been very patient here awaiting an opportunity, and I am going to relinquish the asking of further questions today. That does not mean that I will not tomorrow, Mr. Baker. If you people wish to ask some questions, I am perfectly willing to relinquish.

Mr. Younger, I see a look upon your face that would indicate you have some questions.

Mr. YOUNGER. I have a few questions here, and I think, Mr. Baker, they can be answered without going into detail.

If I interrupt your explanation, you gave great credit to the Texas Railroad Commission, the great benefit which it had rendered to the oil companies; is that true?

Mr. BAKER. Well, not merely the oil companies, but I think to the Nation; yes, sir.

Mr. YOUNGER. Well, I am talking about the Texas Railroad Commission and your company. I am not including anything else.

Now let's just confine it to that. Have they been a great service to your company?

Mr. BAKER. Yes; because they have helped to conserve our oil reserves.

Mr. YOUNGER. All right. Do you look upon your business in any way, since you have appealed to the Railroad Commission, as a public utility serving the public a necessity of life?

Mr. BAKER. No, sir; I don't look upon our business as a public utility. I think that the public-utility business is a type of business that has dedicated its particular business to a public use, and is in the nature of one holding itself out to serve the public in a particular capacity, and subject to general public control, and is not what you call a risk-taking business because its returns are guaranteed by rates. We are a risk-taking business, and not a public utility.

Mr. YOUNGER. Mr. Baker, I am interested in your philosophy; I am not trying to badger you. I am interested fundamentally in your philosophy and what you were trying to tell us this morning. We can do that without oration. You defined a public utility. Now will you define your company?

Mr. BAKER. Yes, sir. My company is a private-enterprise business, engaged in a risk-taking enterprise, a very high-risk-taking enterprise.

Mr. YOUNGER. All right. How would you define, then, the Southern Pacific Railroad?

Mr. BAKER. I would say the Southern Pacific——

Mr. YOUNGER. They are a private company, are they not?

Mr. BAKER. Yes, but its——

Mr. YOUNGER. They serve the public, do they not?

Mr. BAKER. Yes.

Mr. YOUNGER. They take a risk, do they not?

Mr. BAKER. Well, they take a risk but——

Mr. YOUNGER. Say yes or no. Do they take a risk or do they not?

Mr. BAKER. Yes; they take a risk.

Mr. YOUNGER. They answered all the questions that you answered. Now, what else do you do that they do not?

Mr. BAKER. May I undertake to clarify my thinking on that?

Mr. YOUNGER. Without taking too much time, yes, because I do not want to pursue this too far, but I am interested in your philosophy.

Mr. BAKER. Well, I think that businesses like agricultural businesses, stock raising, coal mining, the oil business, are businesses that are, of course, providing products for the public. They have to sell their products to the public, but they are not like railroads or telegraphs or airlines that are holding themselves out to perform a particular public service, and are so closely related to the public business that we have come in this country to the point of regulating their business in such a way that their rates of service and charges are fixed and their incomes are guaranteed on the basis of the rates that are fixed. These other businesses are competing in a very free market.

Mr. YOUNGER. What other businesses? You are referring now to the utilities that you mentioned, or your oil companies?

Mr. BAKER. No; I mentioned agriculture, stock raising, the oil business, the coal business, and that sort of thing, private enterprises that are not and have never been considered as public utilities. Now, in our business——

Mr. YOUNGER. Well, let's get back just a minute. The thing that I cannot understand is you being wedded to the railroad commission—I am from California and we do not have any control of our oil by the State, and I would rather resent the State getting into it and making a utility out of it, from that standpoint. But you have given us a great discourse on how the State serves you and how the railroad commission serves you as a corporation, and what a benefit they are to you as a corporation. I want to know where the public comes in there.

Mr. BAKER. I would like to answer that.

Mr. YOUNGER. Yes.

Mr. BAKER. The public is greatly interested in the preservation of a natural resource like petroleum and gas. It has a very vital interest in the continued service of those fuels for the Nation. These States have police power to protect the public in certain cases. As I explained this morning, people who find oil in an oil and gas reservoir are all tied together in this bundle, and if I drill a well on my land, adjoining your land, and produce my oil from that well, and you don't offset it and produce, I get your oil.

Mr. YOUNGER. We understand all of that. That is very thoroughly understood.

Is there any difference in the oil reservoirs in Texas or in any of the other States?

Mr. BAKER. Well, basically they are the same.

Mr. YOUNGER. All right. Do the railroad commissions regulate in the other States?

Mr. BAKER. They do in most of the States. Not the railroad commission but most of the oil-producing States, Alabama, New Mexico, Louisiana, Florida, Mississippi, Oklahoma——

Mr. YOUNGER. That is, they utilize public-utility bodies to regulate them?

Mr. BAKER. They use conservation commissions of one kind or another to do this.

Mr. YOUNGER. We do not need to pursue that any further because I am not interested in it.

Mr. BAKER. I thought you wanted to know why——

Mr. YOUNGER. No; you covered all of that in detail.

Mr. THORNBERRY. Mr. Chairman, I wonder if the gentleman would let Mr. Baker give a complete answer to his question. Mr. Younger, you asked him a question and I thought maybe you would like to get his answer to it.

Mr. YOUNGER. No; I have it, Mr. Thornberry. He is just reiterating what he gave this morning.

Mr. HESELTON. I can assure you that in your absence the witness has had an opportunity to go over the field very thoroughly.

Mr. THORNBERRY. If you came to our State you would be treated very courteously and given an opportunity to say what you wanted to say. While I have been on the committee I have listened to everybody, and I had hoped Mr. Younger would permit the gentleman to answer the question.

Mr. YOUNGER. I want to be courteous, but I want to be courteous to these other people who have been patiently waiting for 2 or 3 days. If you want to go into detail, you may go into detail but you will not save any more souls than have been saved thus far, I am sure.

Mr. BAKER. The only thing I want to get clear in your mind is that the regulation by the railroad commission in Texas does not make these companies public utilities and they are not regulated as public utilities. They are regulated in this sense, to prevent the waste of a natural resource in which the public has an interest.

Mr. YOUNGER. That is all right. Now I want to get at one other problem here. At great detail you have stated about the costs, and I would like to ask you one question. If you were operating in your business and you found that your costs went up 25 percent in the year, and yet at the end of the year your net income was the same as the previous year, would you feel that you were justified in raising the price of whatever product you had?

Mr. BAKER. Well, I think that you must bear in mind that the price which we are paying affects a lot of other people. We are buying 427,000 barrels a day of outside oil, and there is a customer relationship with them and it isn't our costs alone that are involved in this question of crude-oil prices but the costs of the independent producer who is selling to us. In other words, this is an industry price question that is involved, and not merely the incomes of any one purchaser or any one company.

Mr. YOUNGER. Now let us go back and I will ask the same question again, Mr. Baker, and this is a hypothetical question that has not a thing to do with people that you are buying from. If you were operating a business, and you found that your costs of doing business had increased 25 percent during the year, yet when you came to the end of the year you had exactly the same amount of net income as to your capital and all that you had the previous year, would you feel justified in raising the price of your product?

Mr. BAKER. I think I might very well be because my net income could not remain the same against those increased costs, if they go up 25 percent. Then my income goes down. If my costs went up 25 percent it might wipe out all my income.

Mr. YOUNGER. You know, Mr. Baker, that is not a true statement. For instance, in your own figures, you are selling gasoline today cheaper than you did in 1920, and yet your cost of production has gone up tremendously. But you have put in savings, you have put in refinements, you have done a lot of things that offset your cost. As I said before, I am talking about where you find at the end of your business year your costs have gone up 25 percent, yet you have found that your net return is exactly the same, due to savings and due to other things in your business——

Mr. BAKER. Do you mean in the same year?

Mr. YOUNGER. Yes, in the same year your net is the same. Would you feel justified in raising the cost of your product?

Mr. BAKER. I think that would depend on whether or not my income might continue that way another year. I don't know that my net income would remain the same the next year against these increased costs.

Mr. YOUNGER. I guess we cannot get the answer. Let's go back to one other thing here in your statement.

On page 9 here is a quotation from your statement.

Mr. BAKER. Do you mean in the original statement?

Mr. YOUNGER. In your statement that you read this morning. This is the public statment that you put out for the public. You state: "These facts mean that crude-oil prices have not reflected the decline in the value of the dollar for any part of the large increase in costs that have occurred in the past 5 years."

The question is, Are those two items or are they the same item?

Mr. BAKER. Well, they are, in part, the same item, and, in part, they are not. As we explained above there, rates of pay and cost of materials used in production have increased more than prices generally. So those things have added higher costs than the mere depreciation in the value of the dollar, and in addition to that our costs of drilling and producing had gone up even at a higher rate than the depreciation in the value of the dollar, and in these other things. So there are two items there.

Mr. YOUNGER. You think there are two items?

Mr. BAKER. Yes, sir.

Mr. YOUNGER. All right, will you tell me how you can depreciate the value of the dollar other than by its reflection in the purchase of something?

Mr. BAKER. I don't think I could.

Mr. YOUNGER. Then there is no decline in the value of the dollar except in its relation to its purchasing power; is that not true?

Mr. BAKER. That is what its value is.

Mr. YOUNGER. Then it is not two items, it is only the one item. You have said here that you make two items out of it. You say it has not reflected the decline of the value, as one item, nor the part of the large increase in costs, as though there were two different things.

Mr. BAKER. They overlap.

Mr. YOUNGER. No, they do not. How can they overlap? How can you take a dollar and depreciate the value of it other than in its relation to things?

Mr. BAKER. Well, you take the dollar and buy goods with it. Today you can buy, of all goods, a hundred units for a dollar. A few years later, with that same dollar, you can only buy 75 units. The value of a dollar in that instance has depreciated 25 percent; has it not?

Mr. YOUNGER. Yes.

Mr. BAKER. Now, I may be carrying on an operation in which I have to buy products of one kind and another with which to carry on my business, and it costs me under those conditions 25 percent more on the average to get those products. That is due to the depreciated value of the dollar. But in addition to that, in the drilling of wells to greater depths, and at a greater cost, I have to spend a lot more money in order to get to find oil because of the deeper wells that I have to drill, the cost, even with these dollars, is greater still.

Mr. YOUNGER. Well, again, the dollar that you are spending for the deeper well is only the depreciated dollar that you had. It is the same dollar.

Mr. BAKER. Yes, but in the meantime my cost of operation has gone up by the depreciated value of the dollar plus these other things. That is all we are saying there.

Mr. YOUNGER. Do you think there are 2 items or do you think there is only 1 item?

Mr. BAKER. I think there are two elements.

Mr. YOUNGER. That there is such a thing as higher costs and there is such a thing as depreciated dollars, and they are two different items?

Mr. BAKER. Could I make this clear? If we are drilling wells and we drill a well to 6,000 feet——

Mr. YOUNGER. I am sorry, I have to leave. There is a call on the floor of the House. We have to go.

Mr. HESELTON. Do you have any questions, Mr. Pelly?

Mr. PELLY. No; I have no questions.

Mr. HESELTON. Do you, Mr. Bush?

Mr. BUSH. I have one question, Mr. Chairman.

Mr. HESELTON. Mr. Bush.

Mr. BUSH. Mr. Baker, you operate the Humble Oil Co., Inc.?

Mr. BAKER. We operate the Humble Oil & Refining Co., incorporated in the State of Texas.

Mr. BUSH. Since these increases that you put into effect, do you feel as humble as you did before they went into effect?

Mr. HESELTON. Is that all?

Mr. BUSH. That is all.

Mr. HESELTON. Mr. Baker, are you aware of the fact that yesterday, while Mr. Willetts was testifying here before us, the Socony-Vacuum Co., which he represents, reduced the price of kerosene and light heating oil by three-tenths of a cent a gallon in tank-wagon delivery and thirty-five one-hundredths of a cent a gallon for tank-wagon delivery in New York and New England? Were you aware of that?

Mr. BAKER. I believe I heard his testimony to that effect.

Mr. HESELTON. You heard what?

Mr. BAKER. Didn't he testify yesterday they reduced it?

Mr. HESELTON. No; that took place while he was testifying here.

Mr. BAKER. No; I am not aware of it. I have not followed the markets while we have been here. I know that some others, or one other company at least, reduced those prices.

Mr. HESELTON. Not only one but several.

The CHAIRMAN. Atlantic did.

Mr. HESELTON. Atlantic announced a cutback on heating oil, kerosene, and diesel, and also introduced a temporary discount of twenty-five one-hundredths of a cent a gallon. In addition to that—I have it here but I know you saw this—Sun Oil also reduced, and at least two others of the major suppliers in that area reduced on those items. There was an indication that other suppliers would probably meet Atlantic's action, although it was uncertain whether this can be accomplished by an outright reduction or the use of special discounts.

That having occurred so recently, can you tell us whether or not you feel that there is a likelihood that your company will readjust downward the increases you have posted?

Mr. BAKER. We are not marketing on the east coast, you understand.

Mr. HESELTON. I understand that.

Mr. BAKER. We are marketing only in Texas and very limited amounts of these products. What we will do about the prices of those products I don't know. As I said, we undertook by increasing our tank-wagon price of gasoline seven-tenths of a cent, and the price of fuel oil 25 cents, and the distillate five-tenths of a cent, to offset to

the refiner the cost of 25 cents a barrel for crude. Now, our price for gasoline was three-tenths of a cent lower than most of the people named.

Mr. HESELTON. You are a major supplier of gasoline in Texas, I understand.

Mr. BAKER. Yes. We supply about 16 percent of the business.

Mr. HESELTON. Sixteen percent of the gasoline sold in Texas?

Mr. BAKER. Yes, sir.

Mr. HESELTON. So what you do has a very decisive effect upon the users of gasoline in the State of Texas?

Mr. BAKER. Yes. These prices here, as I understand it, do not affect gasoline.

Mr. HESELTON. Not as yet. Let us hope and pray that maybe some light will be seen by some people before long. All the way through, you have used the prices of all commodities. I do not know what your source has been, but today there was released the economic indicator prepared for the Joint Committee on the Economic Report by the Office of the Economic Adviser to the President, and if you had used that you would have found that there was a high point in 1951, then a constant recession until March of 1953, when it reached 110.

Now, I am going to read off the figures from that time on:

April 109.4; May, 109.8; this year, in June, the week ending June 2, it was 109.7; the week ending June 9, it was 109.6. The week ending June 16 it was 109.3; the week ending June 23, it was 109.6; and the week ending June 30 it was 109.4.

Mr. BAKER. What is the base?

Mr. HESELTON. These are the prices of all commodities.

Mr. BAKER. I mean what year is taken as a base for his index?

Mr. HESELTON. It is the Department of Labor statistical table. The year 1947–49 was one hundred. So you have a picture as indicated by that chart of all prices reaching a high early in 1951, and then with just a couple of short fluctuations steadily going down.

In the face of that, can you now justify your argument that you took into account the increased costs of all commodities in arriving at your conclusion you were justified in imposing this increase?

Mr. BAKER. Yes, sir; I think that any indicator you will take, we are using the Government figures on the Consumers' Price Index, as I was using this morning in connection with the price of gasoline. I was using the Bureau of Labor Statistics figures with 1926 as 100. Generally we have been talking about the price indexes used by the Bureau of Labor Statistics.

Mr. HESELTON. In other words, you choose to select an index that satisfied your argument you were going to make here without any reference to the actual official governmental statistics as to the cost of all commodities?

Mr. BAKER. No, no. I beg your pardon, sir. I am using the Government statistics as a basis for the index, or the Government, except in the case of gasoline prices which are the American Petroleum Institute figures.

Mr. HESELTON. As a matter of fact, you are using consumer prices, are you not?

Mr. BAKER. The figures that I have been using here on indexes are Government figures.

Mr. HESELTON. On consumer prices?

Mr. BAKER. Well, that was true on the service station gasoline question. I was using consumer prices.

Mr. HESELTON. What have consumer prices to do with the costs of operating an industry? Why did you not use the all-commodity index which includes the industrial figures?

Mr. BAKER. If you will let me answer the question, I think I can clear up the point you are making.

Mr. HESELTON. Will you look at that chart before you do, and observe the line that shows all the index? It is on the face of it.

Mr. BAKER. I have not seen this particular publication, but the things we have been using here to indicate the increases in costs have been, I believe, the wholesale commodity increases of the Bureau of Labor Statistics.

Mr. HESELTON. Will you read for the record what the legend says on the top of that particular paragraph?

The CHAIRMAN. I would like to say to the witness, Mr. Baker, you are dealing with figures, comments, and conclusions, and so forth, and if you feel you could be helped by having any individual who accompanied you to sit alongside of you to be of assistance, it is perfectly all right.

Mr. BAKER. I am having difficulty understanding his questions.

Mr. HESELTON. I want you to understand them. Will you read out loud what the legend is on that page?

Mr. BAKER. This legend here which is from the Economic Indicator, July 1953, prepared for the Joint Committee on the Economic Report by the Office of the Economic Adviser to the President, has a heading here "Wholesale Prices."

Wholesale prices which were higher on the average in May than in April fell slightly in June. Prices of farm products and foods declined through June while industrial prices rose a little during the last half of the month.

Mr. HESELTON. You see the line there, do you not, of all commodities?

Mr. BAKER. Sir?

Mr. HESELTON. Do you see the line on the chart that shows the progress of the all-commodity index?

Mr. BAKER. Yes, I see that.

Mr. HESELTON. And is it not true that from 1951 on there has been a steady decrease with 1 or 2 exceptions?

Mr. BAKER. This line here is the line, first, on farm products, and other than farm products, processed foods, and all commodities.

Mr. HESELTON. And you referred to all commodities?

Mr. BAKER. Yes, sir. I was talking primarily about a comparison with 1948 on all commodities.

Mr. HESELTON. Well, let's see if we can get at it in another way. Did you say that gasoline in 1943 was 40 percent less than in 1952, while the general cost of living index was 50 percent more?

Mr. BAKER. What I said was this: that based on the Bureau of Labor Statistics Consumers' Price Index for 1926, used as a hundred, that in 1943 that index was 97.9, and that today that index, at the end of 1952, that index was 150.2, which is an increase of a little better than 50 percent, that in 1943 the price of gasoline, less the tax, averaged 14.56 cents, from which I should have said there was a 40 percent increase to the 1952 price of 20.24 cents, and that therefore

the gasoline had not gone up in price in proportion to the increase in the Consumers' Price Index.

Mr. HESELTON. All right. If you had taken the index at 97 in 1943, and 150 in 1952, you would find that the cost of living index in 1943 was 35 percent less, while gasoline prices increased more than the cost of living. That is entirely contrary to the presentation you have made here.

Mr. BAKER. Well, here is your index. I do not know any way to apply it except from the figures.

Mr. HESELTON. I am trying to point out some of the fallacies of your conclusions. Now let us turn to another matter.

On page 5 and again on page 7, you refer to the desirability of this country having a reserve capacity of at least a million barrels daily. I do not think you intend to let your statement imply to us that this is solely on the ground that the Secretaries of the Interior and Defense wish it as a matter of national security, do you?

Mr. BAKER. The Secretary of the Interior and the Secretary of National Defense have both urged upon the petroleum industry that as a matter of national security we should have in this country a——

Mr. HESELTON. I understand that, but you do not intend to leave the impression, do you, that that is the sole reason why the country is looking for that additional capacity?

Mr. BAKER. I do not know any other reason.

Mr. HESELTON. Let me call your attention to the testimony of Mr. Gene Holman, the president of your own parent company, who was speaking before the House Ways and Means Committee on May 13, and he referred to the Petroleum Administration for Defense sponsorship of this excess reserve capacity in these words:

> Moreover, a margin of producible capacity above actual output is usual in the oil business and is necessary to provide flexibility and orderly management of production. In the years preceding World War II there was a margin of sufficiently producible capacity in our country amounting to about a million barrels daily and actual crude oil output at that time was under 4 million barrels daily compared to more than 6 million barrels at the present.

How can you reconcile Mr. Holman's statement with your company's?

Mr. BAKER. If I said that the oil companies were acting solely on that, I didn't mean to say it. I thought you were asking if the Government was asking for these reserves for other reasons than national defense.

Mr. HESELTON. I tried to make it very clear. I said you did not want to leave the impression with us that you were acting solely on the ground that the Secretary of Defense and——

Mr. BAKER. Not at all, sir. What I was undertaking to say to you was this: that the industry in the public interest has been working diligently to build up a million barrels of reserve capacity a day, and that the carrying of this added reserve costs money, it costs a considerable amount of money, and it is a factor in the increased costs which we should recover in price. That is what I am trying to say.

Mr. HESELTON. I am very glad you brought that in, because I want to ask you another question about this depletion allowance. It appears clear that the depletion allowance is, and it is so recognized as being, an incentive provided by the Government to stimulate the exploration for and discovery and development of oil resources. It seems to me

that in the face of our growing demand for petroleum products and our needs for national defense, the development of additional crude oil reserves as well as a reserve production capacity would be most desirable. However, it also appears to me that through this depletion allowance the Government already substantially has been paying for it and the consumer has, too. If the Government has been paying for it, and if this is a reserve production capacity to be used in time of an emergency, would you feel that, as someone has suggested, this capacity should be set aside or frozen, or handled in some way so that it would be actually at the Government's disposal in time of emergency?

Frankly, I now do not see just how that could be done, but it would appear that there might be something to the argument that this reserve capacity has been created as a result of the Government's tax assistance, and then its use is left up to the States to determine through their control the amount of oil they allow to be produced. What have you to say on that point?

Mr. BAKER. Well, I think that the major premise is all wrong.

Mr. HESELTON. What is the major premise?

Mr. BAKER. That the Government is paying for these reserves.

Mr. HESELTON. What does your company get on a depletion allowance every year, or what did it get last year?

Mr. BAKER. We get 27½ percent depletion, except——

Mr. HESELTON. How much in dollars?

Mr. BAKER. I can't answer you what the depletion for tax purposes is. I can't answer that offhand. You ask what I have to say. I would like to discuss this depletion thing briefly here. It has been asked of all the witnesses, and you have, by this question and statement, implied the idea that the Government is paying these companies money by this depletion allowance in the income-tax law.

Mr. HESELTON. I will rephrase it. The companies have benefited substantially by this depletion allowance. Their treasuries have benefited.

Mr. BAKER. Yes, I think we have benefited as a sound tax measure.

Mr. HESELTON. I am not arguing whether it is sound or not. I said benefited.

Mr. BAKER. It has benefited by it as against some other tax measure that would be lower. May I say this, that the 16th amendment to the Constitution authorized a tax on income only and not a tax on capital, and since the first income-tax law was passed in 1913, Congress has recognized that the income-tax laws must take into account depletion of natural resources, incident to production, for the reason that production uses up the capital that is involved.

Now, depletion is comparable to depreciation on other capital goods. To avoid taxing the capital as though it were income, Congress has done two things: First, it has given a depreciation allowance on physical equipment and that sort of thing so as to permit the replacement of these physical capital goods. Instead of taxing all the income on a factory that costs so much money, they permit a depreciation allowance of so much a year for the purpose of replacing that capital. Now, in a very similar way, the depletion allowance is set up for the purpose of taking into consideration the fact that when you produce a natural resource you are consuming the very capital itself. If I have an oilfield and I am producing the oil out of that field and selling it, I am in

effect selling my capital asset. And in selling my capital asset, in my sale price I am not getting income under the constitutional view of the thing. I am consuming my capital.

Now, in 1918, Congress provided for depletion on the basis of the discovery value. Prior to that time, after the enactment of the 1913 law, the Bureau had undertaken to make a reasonable allowance for this purpose. In 1936, more or less at the suggestion of the Bureau, the depletion was changed from a basis of discovery value to a basis of percentage depletion, which was designed to have the same effect but which was more practicable of administration because the Bureau was having a terrible time ascertaining the discovery value and you could not close out the tax accounts. So they went to percentage depletion. Experience has shown that depletion is a sound procedure for enabling the replacement of that part of the oil or gas that is consumed in the process of production. Experience has shown that the principle is not only sound but that the experience of the industry, that the returns of the industry, are about right. In 1949——

Mr. HESELTON. Well, in effect, it gives you additional means with which to make further explorations and discoveries; is that not true? Is it not true that that is what it boils down to?

Mr. BAKER. It provides an opportunity for you to replace these reserves that you have been taking. That is the purpose.

Mr. HESELTON. That is right. You do not replace the oil itself, you go out and find other oil to take its place, or that is what you try to do.

Mr. BAKER. Mr. Heselton, this country is involved in the matter of how much oil is produced. We are dependent upon an industry to meet this growing demand for oil.

Mr. HESELTON. I understand that. I think all of us do.

What I am trying to get at is that this is a substantial tax advantage to the industry, and although I am not a tax expert, I do not recall that there are any similar advantages, for instance, to the farmer who depreciates his soil or to the owner of a woodlot who cuts his wood. I am not arguing the merits of it. I am simply asking you if it is a fact that you are given this advantage, is there any merit, in your opinion, to the freezing in or the making solely available to the Government in times of an emergency the additional million barrels of capacity that you have developed?

Mr. BAKER. This depletion allowance, of course, is an aid to the industry in replacing its reserves and therefore is an advantage. But I take issue with you on the point that there is any similarity between the man who takes the coal out of his mine that is not replaceable, or the oil out of his fields which is not replaceable, with the man who cuts wood from his woodlot which wood is replaceable.

Mr. HESELTON. Now I want to switch over for a minute—and there are only two more points, Mr. Chairman, that I want to cover here.

The CHAIRMAN. You may proceed.

Mr. HESELTON. That is with reference to the argument with respect to the Texas Railroad Commission, but I do not address myself to them any more than anybody else. I know you realize in article 5 it was specifically set up that it is not the purpose of this compact to authorize the States to join therein or to limit the production of oil and gas for the purpose of stabilizing or fixing the price thereof, and so forth. I am glad you were frank this morning in admitting what so few witnesses before this committee have been willing to admit,

that there is not any question but what the operation of the Texas Commission and the other commissions in establishing the maximum efficient rate, or I think you said the market demand, whichever is lower, in relating itself to the market demand, of course, affects the price. There is no question about it, and you said so. And you did carefully hedge it then by talking about stabilizing the industry, I realize that.

But the secretary of the commission himself, appearing before the Senate committee in 1948, was asked whether or not, and I will read from the committee report—

> Despite this provision the executive secretary of the compact testified that the purpose of the State proration laws was to "prorate to market demand" and that when you limit to market demand, of course, you affect price.

That being true, and having in mind all that you have put into this record, I want to put something into the record at this point and ask you to comment on it:

> OKLAHOMA CITY, June 16.—Oklahoma Conservation Director Walker T. Pound has accused west Texas oil producers of "trying to chisel in" on Oklahoma's traditional oil markets.
>
> Director Pound, who opposed a move to reduce Oklahoma's oil production allowable next month, made the accusations in an information letter mailed to oil regulatory officials and private oil firms.
>
> He said he will recommend the July allowable be maintained at the present figure of 519,260 barrels daily.
>
> The conservation director declared he believes his move to publicize Oklahoma's position will serve to quiet demands of west Texas producers that Oklahoma's production be reduced.
>
> Mr. Pound declared that companies with big production in west Texas have taken the lead in seeking to cut Oklahoma's allowable in the last few months. He singled out R. F. Windfohr, Fort Worth, president of the Texas Mid-Continent Oil and Gas Association, as leader of the move.
>
> Mr. Pound said he was aware that Texas crude-oil stocks are growing while Oklahoma's are declining, but added:
>
> "This whole thing boils down to one basic fact: West Texas producers are trying to chisel in on a market that has historically belonged to Oklahoma, Kansas, Illinois, Michigan, Kentucky, and Indiana.
>
> "The Great Lakes crude marketing area has always been primarily served by these States."
>
> Mr. Pound said that cutting Oklahoma's allowables has not resulted in any decrease in imports; "nor has any credit been given us for out attempt to cooperate in reducing national crude-oil stocks."
>
> He added: "On the contrary, we have. But cutting allowables, particularly in southern Oklahoma, merely made room for a less desirable type of sour crude produced in west Texas."

In my opinion, that blows sky-high any possible allegation that what you people have in operation is not in fact in violation of article 5. Is it not in fact an effort to reduce the national stocks? Is it not intended deliberately to affect the price so that if your stock is down and the demand is up, the natural economic result is that the prices can be raised?

I am making the assertion that the record shows all of this is part and parcel of a deliberate effort to do just exactly what that man says is being done when they were cooperating in reducing the national stocks.

Mr. BAKER. I would like to answer that. I find the position taken here wholly inconsistent with the position being taken that the Railroad Commission of Texas has been cutting below the market demand in order to fix the price. This fellow is complaining about the west Texas people having higher allowables and taking his market while

his allowable is cut down. Those two positions are wholly at variance with each other. If Texas is cutting down, it cannot be stealing Oklahoma's markets.

Mr. HESELTON. Yes; but there is no question, is there——

Mr. BAKER. It is just the reverse of the contention which is being made here. With all due respect to the director of conservation in Oklahoma, the State of Oklahoma has done very little limiting of production by market demand for a number of years. They have not cut their allowables because of production in excess of market demand very many times. They have been producing on the basis of regulation at maximum efficient rates.

Now, the State of Texas, on the other hand, has been getting the effect in the reduction of its markets, by the movement of the Oklahoma crude produced under those conditions, and has been trying to hold its production somewhere near a market demand so as to avoid these consequences that I mentioned this morning of unratable taking, and the difficulties that they have been in in trying to prevent waste in the administrattion of their laws over the years.

Mr. HESELTON. What you are saying is that Oklahoma has been operating on a true conservation basis, relating its allowables to maximum efficient return, and Texas, on the other hand, if we will accept your statement now, has been giving the emphasis to the market demand.

Mr. BAKER. No; I don't agree with that.

Mr. HESELTON. If that is so, it blows the argument up.

Mr. BAKER. The Texas commission has been giving emphasis to the total question of the prevention of waste. The basic consideration is the prevention of waste. They apply to the prevention of waste whatever measure they have to apply; they are regulating all fields to maximum efficient rates. No field is producing above maximum efficient rates, but if by that they cannot bring about conservation, when the markets are not sufficient to absorb the maximum efficient rates, then they are cutting below maximum efficient rates so as to prevent waste by disconnected wells and unratable taking within the fields.

The true conservation in a case where we have a reserve productive capacity, as explained this morning, can only be accomplished by the limitation of production below maximum efficient rates to the current market demand.

Mr. HESELTON. Now I will turn to one final subject. In the first place, before you reached your conclusion that you were going to post these increases and as the chairman indicated apparently reached it rather rapidly after Phillips announced their increase, I assume you gave full consideration to the impact this would have on your ultimate customers.

Mr. BAKER. Upon our ultimate what?

Mr. HESELTON. Your ultimate customers, the purchasers of your product. The final purchasers?

Mr. BAKER. Yes; we considered our whole customer relationship; yes, sir.

Mr. HESELTON. What estimate did you arrive at as to the final annual cost of the increase to the ultimate consumer?

Mr. BAKER. I have not figured on the total cost of the advance in prices for the Nation as a whole. It can be figured out.

Mr. HESELTON. No; I say on your own company.

Mr. BAKER. In my own company, the cost to the ultimate consumer would be at the rate of 25 cents a barrel on the amount of oil which we handle.

Mr. HESELTON. I would like to have it in dollars.

Mr. BAKER. Do you mean a day?

Mr. HESELTON. Did you not figure it out?

Mr. BAKER. A day?

Mr. HESELTON. Annually.

Mr. BAKER. Yes, sir; I can figure it out.

The CHAIRMAN. I believe he has given that already, has he not?

Mr. HESELTON. No; that was on the crude, I think, Mr. Chairman.

Mr. BAKER. On the total amount of crude oil which we sell it amounts to approximately $47,750,000 a year.

Mr. HESELTON. $47,750,000. That is on crude oil only, is that right?

Mr. BAKER. Yes. That is just translating this crude oil.

Mr. HESELTON. It would be a higher figure if you worked it out in terms of your gasoline product and others?

Mr. BAKER. Not on the basis of increased prices we made. It would be very litle higher because we reflected that in our added price.

Mr. HESELTON. Do you disagree with the estimates that have come before the committee that an annual overall additional cost will probably reach not less than $500 million a year?

Mr. BAKER. Well, the total production is about 2½ million barrels of oil a year. It would be in excess of $500 million.

Mr. HESELTON. It would be in excess of $500 million?

Mr. BAKER. Yes.

Mr. HESELTON. That, of course, you recognize, as has been suggested by the chairman, by Mr. Younger, and by others, is without the slightest question of doubt, inflationary?

Mr. BAKER. I am sorry. I didn't understand you.

Mr. HESELTON. I say, you recognize, do you not, that that is clearly inflationary on our overall economy?

Mr. BAKER. Well, it may be inflationary. But I want to point out——

Mr. HESELTON. You mean adding a half billion dollars a year to the consumers cost of living is not inflationary, to manufacturers, to the transportation industry?

Mr. BAKER. I think it may have an inflationary influence.

Mr. HESELTON. Now, pardon me. I am trying to get some things in here so we can get out. You say maybe, and if you want to leave the record that way, it is all right with me.

Mr. BAKER. If you do not want me to——

Mr. HESELTON. I don't want you to go over this which has been gone over, if that is what you mean. If you have anything to add which is additional, all right.

Mr. BAKER. I want to point out that the petroleum industry has been carrying these added costs over a 5-year period when other people have been enjoying higher prices.

Mr. HESELTON. And at the same time the petroleum industry, by and large, has increased earnings substantially, has increased its assets, has increased its dividend payments to its stockholders, is that not true?

Mr. BAKER. Not high in relation to other industries.

Mr. HESELTON. Very substantially?

Mr. BAKER. No, not higher in relation to other industries.

Mr. HESELTON. The record will speak for itself. It is all in here. You have, as a company, and have mentioned it in your statement, and you mentioned it in your answers, you have as a company and your shareholders have as individuals, a very substantial stage in what this Government is trying to do in terms of stopping this decrease in the purchasing power of the dollar, in stabilizing our economy, in getting rid of deficits, and if possible, getting some income-tax relief both to your company and to the stockholders and everybody else in this country. You don't dispute that, do you?

Mr. BAKER. I am very much in accord with the whole program of stopping expenditures and of undertaking to stop inflationary movement; yes, sir.

Mr. HESELTON. I want to read three brief excerpts from the reports of some companies here which I think are very pertinent to this point. This is from the annual report of Sinclair:

> Under the new administration elected last November, a substantial reversal of Government policy toward business is taking place. The order of the day appears to be widespread decontrol and maintenance of minimum controls in order that free enterprise can have the maximum opportunity to build a sound business economy. The realization of this opportunity is something which a substantial portion of business has sought for some time. It must be recognised, however, that the opportunity carries with it grave responsibilities, and obligations, if the new policy is to work under present-day conditions. It is my belief that one of the most important factors to be weighed in predicting the future is the manner in which it is reasonable to expect these responsibilities and obligations will be performed.

That is from one of the great segments of your industry. Another short statement——

Mr. BAKER. I agree with that.

Mr. HESELTON. In which the Middle States Petroleum Corp. said clearly:

> There appears the first evidence that these added costs are being absorbed and compensated for by increasing production, earnings, and reserves.

And, finally, Gulf Oil takes a realistic and encouraging view:

> This presages a period likely to stimulate technological improvements, cost-reducing procedures, a rounding out of expansion programs and a need for strengthening operating schedules. If these developments are forthcoming, the oil industry should continue to progress and any decline in earning power should be limited to moderate proportions and be offset by gains in efficiency and underlying strength.

I think those statements are very commendable. I must say that I think the performance in connection with this cost increase defeats the very fine statements that have been made there, are a blow to the administration's program and certainly should be reconsidered by these companies at the earliest possible date. I hope you will take leadership in insisting that that reconsideration which has already apparently begun in the northeast will be thoroughly explored and that we have the results in the immediate future.

That is all, Mr. Chairman.

The CHAIRMAN. I do not think we will go into the question any further, but with respect to what you have just read, I have before me a report that the Gulf Oil Co. announces it is increasing its price of Middle East crude 25 cents a barrel July 10. That makes the posted price $1.75 per barrel, for 31 to 31.9 gravity crude.

Mr. HESELTON. I guess you can start the merry-go-round.

Mr. THORNBERRY. I would suggest we ask Mr. Heselton not to read any more fine statements which he endorses until he finds out about the increases.

The CHAIRMAN. I believe those that he read relate to the domestic economy as a whole.

Mr. Baker, we realize you have been under a pretty severe and grueling tension today, from morning until late afternoon. We will take a recess now until tomorrow morning at 10 o'clock, when we will resume with you as the witness.

Mr. HESELTON. Mr. Chairman, I neglected to ask permission to file in the record a short tabulation with the average price of gasoline in 50 representative cities on the first of the month from 1919 through March of this year, compiled by the Texas Co. It will be very helpful to the record.

The CHAIRMAN. You may have that permission.

(The tabulation referred to follows:)

Average price of House Brand Gasoline and tax per gallon, in 50 representative cities on first of the month

[Data gathered and compiled by the Texas Co.]

Period	Service station price (excluding tax) Cents	Period	Service station price (excluding tax) Cents	Period	Service station price (excluding tax) Cents
1919	25.41	1933	12.41	1947	16.93
1920	29.74	1934	13.64	1948	19.54
1921	26.11	1935	13.55	1949	20.27
1922	24.82	1936	14.10	1950	20.08
1923	21.06	1937	14.59	1951	20.31
1924	19.46	1938	14.07	1952	20.24
1925	20.09	1939	13.31	January	20.26
1926	20.97	1940	12.75	February	20.04
1927	18.28	1941	13.30	March	19.93
1928	17.90	1942	[1] 13.96	1953:	
1929	17.92	1943	[1] 14.12	January	20.28
1930	16.16	1944	[1] 14.19	February	20.29
1931	12.98	1945	[1] 14.22	March	20.62
1932	13.30	1946	14.69		

[1] Excludes OPA compensatory charges paid to Defense Supplies Corp., or its predecessor, to cover excess transportation costs as follows: 1942, 0.496 cent; 1943, 0.444 cent; 1944, 0.427 cent; 1945, 0.261 cent.

Mr. BAKER. I did not get to finish a reply to one of your questions asked a while ago, and if I may I would like to add this on the question of depletion. That is that the study made by the Mid-Continent Oil and Gas Association shows that the experience of producing companies was that their exploration costs, exclusive of productive wells, was about the same as the allowable depletion under the statute, and that last year, as an example, our total exploration expenses were about the same as the maximum allowable that was made under the act, and that as a result even with the depletion allowances that are made, a study shows that the profits of the petroleum industry relatively are lower than that of the manufacturing industries, and the trade industries, based on the National City Bank analysis of the income from manufacturing and trade, and the Chase National Bank study of the petroleum industry.

The CHAIRMAN. We will recess until 10 o'clock tomorrow morning.

(Whereupon, at 5:17 p. m., the committee was recessed, to reconvene at 10 a. m., Thursday July 9, 1953.)

PETROLEUM STUDY

(Gasoline and Oil Price Increases)

THURSDAY, JULY 9, 1953

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D. C.

The committee met at 10:15 a. m., pursuant to recess, in room 1334 of the New House Office Building, Hon. Charles A. Wolverton (chairman) presiding.

The CHAIRMAN. The committee will come to order.

Before we start the questioning, I would like to make an announcement with reference to this coming week. When we adjourn these hearings this week, whether it be today or tomorrow, depending upon circumstances, it is our intention to continue hearings on Monday next, at which time we are arranging a program. Notice as to those who will appear on that occasion will be given later in the day probably. Then on Wednesday of next week, I am inviting Mr. Harold Stassen, or some representative from Mutual Security Administration to appear before the committee to give testimony as to the effect of the present rise, of which some notice has been given in reference to the Middle East field. It is our desire to know what that will mean, what effect it will have upon the dollar deficits of those European nations to whom we are supplying aid.

In addition to that, I am addressing a telegram to Charles E. Wilson, reading as follows:

The House Committee on Interstate and Foreign Commerce has been conducting an inquiry into recent increases of gasoline, crude oil, and other oil products. Inasmuch as the military are substantial purchasers of oil and oil products both here and abroad, we shall welcome your appearance or your designated representative before the committee next Wednesday, July 15, at 10 o'clock, to tell us just how much more these increases in domestic prices, as well as those such as announced yesterday by one of our companies operating in the Middle East, will cost the military services in the fiscal year 1954. In addition to your direct purchases, trust you may give estimate of what will be the additional cost contained in the materials you buy.

The questioning of Mr. Baker will now be continued.

Who has the desire to question Mr. Baker?

Mr. HALE (presiding). Mr. Schenck, do you wish to question the witness?

Mr. SCHENCK. Yes; thank you, Mr. Chairman.

Mr. Baker, I have been very much interested in your statement and in your comments, and there are just a few items that I would like to clear up in my own thinking and perhaps for the record. Did you attend the meeting of IPE in Tulsa?

STATEMENT OF HINES H. BAKER, PRESIDENT, HUMBLE OIL & REFINING CO.—Resumed

Mr. BAKER. IPA.

Mr. SCHENCK. I am reading here from a Wall Street Journal clipping of May 13 of this year, which describes a meeting held by the International Petroleum Exposition.

Mr. BAKER. No; I didn't attend the exposition this year.

Mr. SCHENCK. I wondered if you had any comments to make as to the technological improvements that have been made in exploring and finding crude oil.

Mr. BAKER. I am not an engineer, Mr. Schenck, but I am familiar generally with those matters, as an executive who is not an engineer would be. In the matter of exploring for oil, and the finding effort, of course, we have had very decided improvements in all the tools used in exploration. The method of the use of the seismograph has been very greatly improved, so as to define prospects more definitely, and gravity meter readings are better, and various methods of geophysical exploration are constantly in process of improvement. The industry is spending a great amount of money on research in that area, and prospects that a few years ago could not be located, that is, structures that are favorable for the accumulation of oil and gas, can now be located and fairly well defined by the instruments in use.

In the field of production, there have been a great number of improvements in drilling equipment and drilling techniques and in the matter of testing wells and completing them, and procedures by which the formations may be fractured and the oil moved more readily into the wells.

Mr. SCHENCK. You are referring there to such systems as hdrofrac and sanfrac and microwave and lorac?

Mr. BAKER. Yes, sir. There are a great number of improvements going on, and the industry is spending great sums in research in all fields of its activities.

In refining, the refining processes are constantly under research effort and study.

I believe there has been no process discovered in the last few years that would compare, for instance, with catalytic cracking.

Mr. SCHENCK. That is a little different subject; is it not? I am talking now about wells.

Mr. BAKER. You want to confine yourself to production.

Mr. SCHENCK. Right at this moment.

Mr. BAKER. I believe I have said what I want to say about that.

Mr. SCHENCK. Since you have had these scientific advancements and have used these various systems for fracturing, as you call it, the underlying strata, producing more oil for the given well, that has happened; has it not?

Mr. BAKER. Yes. In many fields, the capacity of the wells and the total recovery from the reservoirs have been greatly increased by these methods.

I would like to point out, however, that the experience of the industry in the last several years has not been too good in the finding of many of the large prolific fields. And these methods that you are talking about, applicable to the poorer fields that we are finding today, often are of very great help.

Mr. SCHENCK. Would it not be true, then, that the wells of which you speak are delivering more oil than they did before?

Mr. BAKER. Yes.

Mr. SCHENCK. Would it not then follow that receiving this oil without the cost of drilling new wells is added production or income to the company owning the well?

Mr. BAKER. Yes, to those companies owning those particular wells. But, actually, compared with the earlier periods, and with different kinds of fields, that becomes a more costly operation. To have to do these extra things makes the operation more expensive.

Mr. SCHENCK. Per barrel?

Mr. BAKER. Per barrel and per well.

Mr. SCHENCK. But if you do not have to drill additional wells and you are getting production here, are you not saving the drilling expense?

Mr. BAKER. On the particular well that you bring in that way, by those procedures; yes. You get more oil and get a higher return.

Mr. SCHENCK. This story here indicates that Standard Oil of Indiana, which developed and licensed the process, estimates that fracturing will contribute 20 to 25 billion barrels of oil within the next 15 years, and then they go on here: "Oil that could not be produced commercially without fracturing." If you can produce as much as between 10 and 25 billion barrels of oil in that number of years, does that not mean that your production from these wells has been increased and therefore the cost has been lowered?

Mr. BAKER. Yes; that is true. That simply increases the productive reserves of the industry by that amount.

I would like to point out that with all of those methods and with all of the secondary recovery methods that are being use, improved procedures of the industry, my company, for example, is producing less oil today than it was in 1948.

Mr. SCHENCK. From the same number of wells?

Mr. BAKER. No; we have spent a great amount of money and have productive capacity above the amount that is being produced. But we are actually producing less oil, which means that the cost per barrel, therefore, is much higher.

Mr. SCHENCK. Why are you producing less oil? Is it not available?

Mr. BAKER. We are producing less oil, because we are producing under the allowables that are set by the conservation agencies of the States in which we operate.

Mr. SCHENCK. Then the oil which you are producing is not at the capacity of the well but according to conservation.

Mr. BAKER. That is right. Many of these wells are limited by the maximum efficient rate of production, and many of them are limited by the orders of the agencies limiting to market demand, as a waste prevention measure, as I stated yesterday. For example, in the State of Texas, the allowable was 20 producing days per well during the month of June. During the month of July, it was 21 producing days, out of the 31. And, of course, that leads to oil that could be produced within the maximum efficient rate that is not being produced, by reason of the order. And it is on that account, Mr. Schenck, that the industry has this reserve producing capacity, that the Interior and Defense Departments are constantly urging the industry to build up and maintain as a matter of national defense.

Mr. SCHENCK. You feel, then, that even though these conservation laws do limit the capacity of the wells and therefore increase your costs, the overall benefit is worth the increased cost, in order to build up reserves. Is that your position?

Mr. BAKER. Yes, sir. I think from the standpoint of the national interest in the prevention of physical waste, and from the standpoint particularly of the small independent producer in preventing drainage by those who are fortunate enough to have markets, and to provide a system by which every producer, big or little, shares in the output from a given reservoir, is a very important matter, and is in the national interest, and in the long run is in the interest of the producers.

Mr. SCHENCK. Now I would like to go for a moment to the actual refining of the crude. Have there not been great technological improvements in the refining of crude?

Mr. BAKER. Yes, sir; and those are going on all the time. And in my company, we are spending on the order, I believe, of $4½ million to $5 million a year in research in these various fields that you have mentioned. And the industry is doing the same thing. That is why I said yesterday, among other things, the industry is progressive.

Mr. SCHENCK. Has that resulted in the production of more salable items in dollars per barrel?

Mr. BAKER. Yes. It particularly has resulted in producing higher quality products and a higher percentage of the higher quality products from a barrel of oil.

Mr. SCHENCK. Now, during World War II, there was a considerable lowering, was there not, of the octane rating of gasoline sold at the filling-station level?

Mr. BAKER. Yes, sir; because of the shortage of tetraethyl lead primarily and also because of the shortage of butylenes and other materials used in the making of aviation gasoline.

Mr. SCHENCK. Yes. Now, since that time has the octane rating been brought back up on the grades of gasoline sold in the filling stations?

Mr. BAKER. Yes; it is higher than it was before the war.

Mr. SCHENCK. It is higher now than it was before World War II? We are getting better grades of gasoline now?

Mr. BAKER. Better grades of gasoline than we have ever had.

Mr. SCHENCK. How much additional dollar value has been developed out of a barrel of crude oil compared to what it was prior to the war?

Mr. BAKER. I am not able to answer that question, Mr. Schenck.

Mr. SCHENCK. Would it be possible for your company to supply the committee——

Mr. BAKER. That will vary, of course, very widely as between refineries, depending upon the type of equipment the refinery has, depending upon the kind and grade of crude that the refinery is using; and there are a great number of technical variations there that would make it difficult, I think, certainly, for any one company, to provide an answer for that.

Mr. SCHENCK. I am told that in the production of electricity by coal, in the last few years there have been tremendous improvements in the methods used, by higher steam temperatures, by greater steam pressures, by the use of turbines, and so forth, so that it only requires a fraction of a pound of coal to now produce a kilowatt-hour of electricity; and in spite of the fact that a public utility has to have on hand

a tremendous pile of coal to use, and therefore a big investment, the reason they have been able to meet increased wage costs and increased taxes and everything else and still sell the electricity at the same or a lesser fee is because of these increased technological improvements.

Now, is that true in public utilities and not true in the gasoline-refining business?

Mr. BAKER. Oh, no. The technological improvements that you have been discussing here have greatly improved quality and the efficiency of the products and have lowered costs. Of course, that has also required considerable added investment because in order to do the things that you are talking about, you have to invest in equipment, you have to build plants, which means that there is a great addition of capital investment involved in doing all of these things you refer to.

Mr. SCHENCK. Well, certainly.

Mr. BAKER. But they have greatly improved efficiency and have enabled our industry to pay continuing increased wages. The workers in the petroleum industry are among the highest paid workers of any industry in the country and they have been going up. We have just had a 4-percent increase in wages in the last 3 weeks.

Mr. SCHENCK. Did not your financial statements indicate that you could still sell gasoline at the prices prevalent here just a few weeks ago and still make a lot of money?

Mr. BAKER. I don't think we can continue to carry the burden of costs that we have had building up on us since our last general advance and continue profits. For example, in our own company, in the last 5 years, since the last increase in crude oil, our profits have gone down, not up.

Mr. SCHENCK. Percentagewise?

Mr. BAKER. No; actually moneywise. In 1948 we made $186 million. In 1952 we made $145 million.

Mr. SCHENCK. Was that because of increased taxes or what?

Mr. BAKER. Well, it is because of these various items of increased costs that I discussed on yesterday. We were just looking last night at our annual reports, and in response to the inquiries that the chairman was making about being specific, trying to get this question of costs a little better in hand—and these figures ought to be rather interesting. I am just going to give three items of cost here. That doesn't take into account a number of other items that I may mention, but just three items of cost in the production line.

Dry (drill) hole costs of Humble Co. from 1948 to 1958 went up $16,567,000.

Mr. SCHENCK. In spite of these new techniques of finding——

Mr. BAKER. Yes, sir, in spite of all of the improved techniques, drilling more dry holes, a higher percentage of dry holes, as I pointed out yesterday morning. Our payroll during that period has gone up $19,955,000. Our production taxes have gone up better than $4,800,000.

The effect of that, based on our crude oil production, for the year, means that in dry hole costs alone there has been an increase of 14 cents a barrel, and in production taxes an increase of 4.7 cents a barrel, and in the production payroll, which I estimate at 36 percent of the $19,955,000 figure that I used for the company as a whole, 11.4 cents, or 30.1 cents a barrel increase in cost from 1948, since the time we made our last increase in crude, on those three items alone. Now, that

does not include such things as exploration expenses exclusive of dry holes, depreciation, administrative overhead, lifting costs other than taxes and payroll, which are generally much higher also. So that, as I said yesterday, the 25 cents advance in crude prices which have been made doesn't anywhere near offset the added costs that we have incurred in the interim between the time when we made our last crude oil advance and this date.

Mr. SCHENCK. Just this one question. Then how much increase in volume dollars have you had at the other end, the selling end? Your volume of business has increased, has it not?

Mr. BAKER. Since 1948?

Mr. SCHENCK. Yes.

Mr. BAKER. No, I don't believe so. I think our volume of business is down. As I said a while ago, our production is down, and our net income is down by more than $40 million. Our gross income in 1948 was something over a billion dollars. I don't have that figure here, but I know that that is correct; and our gross operating income in 1952 was $975 million plus.

Mr. SCHENCK. I yield to Mr. Heselton.

Mr. HESELTON. What is the situation taxwise in regard to the costs of drilling? You give your dry hole increase as $16,567,000. How do you handle that on your tax? Do you write that off?

Mr. BAKER. I am sorry. I didn't get that question.

Mr. HESELTON. Do you write that off to cost of drilling?

Mr. BAKER. No, we don't write off the cost of all drilling. We expense dry holes. And in addition we capitalize all producing wells, all successful wells.

Mr. HESELTON. What do you mean by "expense dry holes"?

Mr. BAKER. Well, we include dry holes as an expenditure and do not capitalize it.

Mr. SCHENCK. Is that not a deductible item, then, on your tax structure?

Mr. BAKER. It is an item of expense, yes.

Mr. SCHENCK. Then the cost is not to the company?

Mr. BAKER. The dry hole is a total loss, and is of necessity an expense. We don't net anything out of a dry hole. We have lost that money. And it, of course, becomes an expense. It is nothing to capitalize. You drill a dry hole, and you pull up and leave. That is a total loss.

Mr. HESELTON. As I understand it, when you go out and drill and you get a dry hole, that is an item of expense.

Mr. BAKER. That is right. We do not capitalize that.

Mr. HESELTON. All right. Then, when you get a hole that returns oil or gas, you handle that under depletion. You get 27½ percent.

Mr. BAKER. No; let's not get confused on that.

Mr. HESELTON. I do not want to be.

Mr. BAKER. We don't add depletion at that point. We capitalize that well, and we do, in our accounting procedures, set up a depreciation on the wells, as on other physical properties. That is, if we build a refinery we depreciate that refinery at a certain rate over the estimated life of the property.

Mr. HESELTON. Let us keep on wells. Let us see what you do on wells.

Mr. BAKER. Well, we do the same thing on the physical equipment on wells, yes.

Mr. HESELTON. And you depreciate it?

Mr. BAKER. We depreciate the well.

Mr. HESELTON. At what rate?

Mr. BAKER. Well, that varies.

Mr. HESELTON. What is the average?

Mr. BAKER. The average? I can't answer that.

Mr. HESELTON. What is the minimum, and what is the maximum?

Mr. BAKER. I can't answer that either. I am sorry, but I just don't know those rates of depreciation.

Mr. HESELTON. Is depreciation different from depletion?

Mr. BAKER. Depreciation is a charge against physical equipment, like wells, tanks, buildings, refineries, service stations. All the physical equipment of that kind that is put in, we depreciate over the estimated life of the property. That is a practice in all industry.

On the resource itself—I am talking now about accounting, our accounting for the purpose of ascertaining our profits and for keeping our books—we deplete those reservoirs on the basis of their cost. And that enters into our accounting. For example, here in the year 1952, as shown by our annual report, we have an item for depreciation, depletion, and amortization of $63,928,000 plus.

Mr. HESELTON. What was that item in 1948?

Mr. BAKER. I don't believe I have a 1948 annual report here.

Mr. HESELTON. All right. 1951?

Mr. BAKER. $56,900,000.

Mr. HESELTON. You increased that item by $7 million.

Mr. BAKER. By $7 million or a little over.

Mr. HESELTON. Thank you.

Mr. ROGERS. You said something with reference to the income a while ago. What is the amount of taxes that you pay to the Government?

Mr. BAKER. To the Federal Government?

Mr. ROGERS. Yes.

Mr. BAKER. In 1951, we paid in Federal income taxes—I am not sure that this is the final figure. I don't know that we have closed out our 1951 figure, but it is estimated here at $51,500,000.

Mr. ROGERS. Is your company subject to the excess-profits tax?

Mr. BAKER. We were during World War II. Under the present law, I don't believe we are, because our income has been going down instead of up.

Mr. ROGERS. That is all, Mr. Chairman.

Mr. SCHENCK. That is all, Mr. Chairman, except that I would like to make this comment: I think there are some very good items of information in this particular story, which should be kept in the file. I wanted to say also that last evening, when I picked up my dry cleaning, I found that the cost of dry cleaning has been increased 15 percent, and the dry cleaner told me that the cost has been increased 15 percent because of the increase in gasoline prices, because they use huge amounts of petroleum products. So that these gasoline prices are affecting every family from the standpoint of the amount they drive their automobile to and from work and in their regular course of business, and it is also affecting the family otherwise, as they use other petroleum products.

Mr. HESELTON. Will the gentleman yield on that point?

I might add the observation that when I bought some gasoline here in the city within this week, I asked the proprietor if he was getting anything out of this increase, and he said, "No," so I do not think all this plea from the purchasers of the product, talking now about the vendors of gasoline to the public, is going to make much impression on them.

Mr. SCHENCK. In addition, Mr. Chairman, may I say this: that the Gasoline Dealers Association in my congressional district has brought out that particular point, which report I filed with the committee. To the extent that the gasoline dealer has increased costs of wages and equipment and other business expenses, and with an increase in his bulk price, without an increase in the spread between the bulk price and the retail price, he is having to invest more money in his bulk storage tanks. Therefore the gasoline filling-station operator is making less money with increased gasoline prices than he made before. And there is a very serious situation there.

In some States, where a producer also operates retail outlets to a great extent, they decide what the wholesale price shall be and what the retail price shall be, and the independent operator of a filling station just has to do what they tell him or else get out of business. And a large percentage of them are getting out of business.

Mr. ROGERS. Do you know of any other industry that is an avenue for greater contributions to the Government by way of taxes than the oil industry?

Mr. BAKER. I am not too familiar with that question, Mr. Rogers. I don't know the relative tax contributions of the various industries. I couldn't answer the question.

Mr. ROGERS. They provide a source of taxation, involving a tax of 6, 7, and 8 cents a gallon. I just wondered if you had what they contribute to the Government.

Mr. BAKER. I can't answer that. I am sorry.

I would like to make this observation, Mr. Schenck, in regard to your statement: that in our case we named a seven-tenths-cent tank-wagon increase basically, and our retail spread was increased by three-tenths of a cent on the basis of the retail price, of 1 cent increase, which means that if the dealer increases his price a cent, he can increase it a cent or a cent and a half or 2 cents or half a cent, as he sees fit, but if he increases it a cent, in our case, the dealer would be getting three-tenths of a cent more, under this new price setup than before.

Mr. SCHENCK. I believe in your statement you said you operate some three-hundred-odd stations.

Mr. BAKER. That is correct.

Mr. SCHENCK. In those cases where you set the retail price, do not the other dealers follow suit?

Mr. BAKER. No, they don't always follow suit. In general they do, but frequently they charge more. We have any number of dealers who are charging a half cent a gallon more than we charge.

Mr. SCHENCK. And doing business?

Mr. BAKER. And doing business. They are content to do it, from time to time. I can't say how long those conditions exist, but we have a good many instances of their charging prices on top of our retail margins at our own stations.

Mr. SCHENCK. My guess is that if they do that, you will get the retail business.

Mr. PELLY. Mr. Baker, you have referred in your testimony recently to the increases in your various expenses which you have had since 1948.

Mr. BAKER. Yes, sir.

Mr. PELLY. I notice that in 1948 you had probably the highest earnings that you ever had.

Mr. BAKER. That is right. That is shown in the statement I gave yesterday.

Mr. PELLY. That year your profits after taxes amounted to 27 percent or a little more on your invested capital, on your capital investment.

Mr. BAKER. That is, on the present worth, stockholders' investment.

Mr. PELLY. That is right; 27 percent was a pretty high return, considering all the risk and everything else.

Mr. BAKER. Well, I am not so sure about that, because the return there was made on crude that we had accumulated during the period of the 1930's, when we secured a number of very fine oilfields, which we are now having to replace, at a very much greater cost. Our replacement of present reserves is very much greater than the cost of the reserves we are producing.

Mr. PELLY. I think I understand your point. In other words, you have had the benefit of some lower-cost wells and lower-cost reserves. You have been utilizing those. And in 1948 you happened to have a very good profit as a result of that.

Mr. BAKER. Yes. The point I would like to make is that these charges for depreciation and depletion which we set up here on the cost are far from adequate——

Mr. PELLY. Every business in the country is faced with the same proposition.

Mr. BAKER. To enable us to replace those items. So, therefore, I can't say that this is necessarily a higher return.

Mr. PELLY. Still, 27 percent was a high return.

Mr. BAKER. It is a relatively high return.

Mr. PELLY. And what I am trying to get at: What do you think, considering the risk and venture and all the elements that enter into the investment of your stockholders' money, is a fair return?

Mr. BAKER. Mr. Pelly, we have wrestled with that question for a long period and never have been able to get a satisfactory answer, and I can't give it.

Mr. PELLY. I notice that no other company that has testified here before has ever made as high as 27 percent.

Mr. BAKER. That is correct.

Mr. PELLY. And I assume that when you consider whether you will raise your price or not, you have an objective? You want to make a certain return for your investment?

Mr. BAKER. We probably haven't been quite that scientific in this business. We have an extraordinarily high-risk business.

Mr. PELLY. It has not been very risky judging from your profits.

Mr. BAKER. With $43 million in dry holes last year, and with the cost of replacements going up as they are, we don't know what our experience may be. And I don't think we have ever been able to set a mark.

Mr. PELLY. Well, you made 15 percent last year, and that was a pretty good return.

Mr. BAKER. We didn't think it was so good.

Mr. PELLY. You did not?

Mr. BAKER. No.

Mr. PELLY. Did you have the benefit last year of any accelerated depreciation?

Mr. BAKER. Yes; I believe we had a very limited amount on some refinery equipment built to provide some more products under the new defense program. We haven't had very much. I don't know the amount. As a matter of fact, we have scrutinized pretty carefully to hold that down for two reasons: We didn't want to claim it during the period; and, in the second place, we are not too sure that we are going to be better off by taking the accelerated depreciation in the long run.

Mr. PELLY. Have you not looked at that on the basis of whether your equipment will be worth less at the end of the period when it is fully depreciated? Is that not what it is supposed to be?

Mr. BAKER. Certain parts of it may be, and certain parts may be converted into other equipment. You can't always determine that, Mr. Pelly.

Mr. PELLY. Well, I think the objective in allowing accelerated depreciation was to give an incentive for the larger companies to put in plants and equipment which they would not have any use for when the defense crisis was over. And I think that has generally been abused. Because they are going to have plants that are absolutely capable of producing when they are fully depreciated.

Mr. BAKER. That is why I say ours have been very low, because we have analyzed our investments there to pretty strictly to determine whether or not they are exclusively war plants or have a place in our general picture. And we have not had a great amount of stepped-up amortization. I don't recall the figure now.

Mr. PELLY. I am rather surprised, Mr. Baker, that your taxes in 1951 were only $51 million. Generally we hear that corporations are paying 50 percent, half their profits, out. You had a net of $169 million after paying $51 million in taxes. That would indicate to me that you are not being taxed as heavily as maybe smaller or other types of businesses.

Mr. BAKER. I can't answer that question. I am not, as I said, familiar with the tax picture overall.

Mr. PELLY. Did you have a chance last night to think at all about the amount of increased benefits that you will receive as a result of this price increase? You said yesterday $31 million.

Mr. BAKER. I said that would be the gross from the crude oil which we produced.

No; I didn't work on that last night.

Mr. YOUNGER. Just one question, to clear up the record, Mr. Baker. I think yesterday you made the statement, in talking about prices, "that you wanted to test out what the market will stand." I question whether or not you want that in the record in that form, that you set your price at whatever price you can get, in other words.

Mr. BAKER. I don't believe I used it as applicable to Humble. I said that I was talking about the Phillips, in 1948, on the crude price, and the Socony-Vacuum in February of this year on product prices.

Well, I don't know that that use of that word "stand" is a good word. Thank you. And I don't think I meant to use it in any sense that the company involved is motivated by the idea of getting all the traffic will bear. But what I did mean to say was this: That they made this price change without knowing whether or not they would be met. And in that sense, they were testing out the market to determine whether or not the price which they named was one that would stand, or maintain itself, in the face of competition. And it developed in those cases that they were wrong in their judgment as to what the market would settle out at, and had to back down to the earlier price.

Mr. YOUNGER. That is all, Mr. Chairman.

Mr. HALE. Mr. Heselton?

Mr. HESELTON. That question of whether it would stand would be determined under existing conditions by the companies themselves, whether they would hold the price. It would not be determined at all by the consuming public, who have absolutely no alternative except to pay the freight that you set for them. Is that not right?

Mr. BAKER. Well, Mr. Heselton, that is like any other product that is on the market. If the consuming public will not pay the prices, and you are losing business, you give consideration to cutting your prices to attract business. And if these prices named resulted in less consumer demand, that would be a factor, of course, in the question of the balance of supply and demand.

Mr. HESELTON. What I mean is that the consuming public has no alternative, if all the oil companies charge the same price. Is that not right?

Mr. BAKER. Well, they have the alternative that any purchaser of any other product has, to use less of the product than otherwise.

Mr. HESELTON. You mean they can get on a horse or ride a bicycle instead of running an automobile?

Mr. BAKER. They can drive less. They can determine within limits as to how much gasoline they are going to use.

May I say this on that point, Mr. Heselton: I believe that the record is that the average consumption of gasoline by the American gasoline users is about 700 gallons a year. And on that basis, this 1-cent advance would mean what? Seven dollars a year, or sixty-something cents a month, as the added cost of 1 cent a gallon.

Now, looking at it another way, if a man fills up his tank with 10 gallons of gasoline, which is about the average fill, as I understand it, it would mean that on the basis of 1 cent a gallon, the fill would cost him 10 cents. So I don't know whether that is going to be enough to influence the consumption by the American motorist or not. But in comparison with other goods that he uses, on the basis of the figures which I gave yesterday, based on the consumer index, he is still getting a cheap product.

Mr. HESELTON. And, of course, you could follow that same philosophy if the food dealers and the clothing dealers, and those who sell everything else to the public, did what you have been doing; you would have plenty added to the inflationary factor. You admit there is somewhere between $500 million and $600 million a year involved in these increases. You know perfectly well if you add on something like $2 billion a year, you are actually wrecking the program——

Mr. BAKER. I point out that we are meeting what the other fellow has been getting for sometime.

Mr. HESELTON. I would like to put this full editorial in, but I would like to read from the editorial from the Boston Sunday Herald of June 28, and call your attention to certain statements. It is entitled, "Oil Rush" and reads:

Two boosts in 2 weeks in gasoline prices at the start of New England's vacation season are as popular with tax-beset car owners as water in the tank. The big oil companies have economic words for it, and with some logic. But psychologically, for an industry that prides itself on contented customers, the 1–2 price punch was mild lunacy. Two simple lessons in business or in sport are spacing and timing.

Then at the end of it, it says:

In a free economy pricing is a matter of policy and presumably considered judgment. In view of inventory position, in view of the two-handed price push, the oil companies, to put it mildly, seem lacking in finesse. There is such a thing as a decent interval. Price changes should not amount to a stampede.

(The full editorial referred to is as follows:)

[Boston Sunday Herald, June 28, 1953]

OIL RUSH

Two boosts in 2 weeks in gasoline prices at the start of New England's vacation season are as popular with tax-beset car owners as water in the tank. The big oil companies have economic words for it, and with some logic. But psychologically, for an industry that prides itself on contented customers, the 1–2 price punch was mild lunacy. Two simple lessons in business or in sport are spacing and timing.

At midmonth, one big producer raised crude oil prices, the first tilt since 1947. The others were politely evasive for a day, then fell over each other to follow.

Ceiling prices went off gasoline on April 1, for the first time since July 1950. Here is how the companies saw the combination.

In crude oil, drilling costs had risen as much as 100 percent between 1941 and 1951. In addition the Government had in effect asked building of emergency petroleum stockpiles, but with industry money, not tax money. In gasoline, there have been 3 years of improved quality at no price increase, while equipment, building and transportation costs went up. Like the producers, the refiners answered Government pleas for more storage and more refining plant.

On the other hand, only steel has kept gasoline company in an increase. Elsewhere commodities, wheat and cotton, have made new lows as supply forges ahead of demand. Heavy gasoline inventories and bids to restrict oil imports would seem to spell lower, not higher prices. Total stocks of gasoline the middle of the month were 28,764,000 barrels, or 23.6 percent ahead of a year ago.

In a free economy pricing is a matter of policy and presumably considered judgment. In view of inventory position, in view of the two-handed price push, the oil companies, to put it mildly, seem lacking in finesse. There is such a thing as a decent interval. Price changes should not amount to a stampede.

Mr. HESELTON. Perhaps you have not been made aware of the fact that the consuming public is not taking this quite so enthusiastically as you think they will take it.

Mr. BAKER. My answer to that is that if these prices are unsound, in our free competitive American economy, they will fall. If they are not sound, they won't stand. If they are sound, they will stand.

Now, under the free competitive economy, with the prices of gasoline being fixed as a result of the operation of the competitive forces, gasoline has been uniformly cheap relative to other products. And I think the American competitive system will determine that, and determine it better than any one of us can determine it.

Mr. HESELTON. I wish I could believe that the American competitive system had anything to do with it whatsoever.

The evidence and the clear evidence that has been brought in here indicates that the oil companies are the ones who determine it, and the competitive system is not involved at all except between themselves as to how far up they can go and make each other accept it. It is just pure unadulterated bunk to be talking about a competitive system in the oil industry when you have got the allowable system which fosters an absolute complete monopoly and a stabilization of prices, and neither you nor anybody else has been able to demonstrate otherwise.

Mr. BAKER. Well, the statement you made isn't based upon the facts of the industry. And the competitive forces at play in the oil industry are no different from the competitive forces at play in all other industries in the free-enterprise system. And there is not any one company or any group of companies acting independently that are going to be able to maintain prices that are not sound basically.

Mr. HESELTON. I would like to ask you one final question.

In questioning Mr. Hadlick, general counsel of the National Oil Marketers Association, I stated:

> Of course, there have been, from time to time, suggestions made, and I am sure in all seriousness that a remedy would consist in divorcement, and that perhaps the pattern has become so rigid that there is just not any opportunity for what you like to think of, and all of us like to think of as a free competitive system in the production, gathering, processing, and distribution of petroleum products?

The witness, Mr. Hadlick, replied: "Mr. Heselton, these words, I think will be prophetic." And he added some further comments.

Do you have any comment on that?

Mr. BAKER. I think that any divorcement would simply add to the cost to the American consumer, when you carry that out, because of the improvements and the progress that are incident to the operations as they are being conducted today. I don't believe that the American public would be benefited by it, but that, on the other hand, they would be hurt by it.

Mr. HESELTON. That is all, Mr. Chairman.

Mr. BAKER. Mr. Chairman, we have had considerable discussion on this question of depletion.

The CHAIRMAN. Was it your intention to go into that question now?

Mr. BAKER. I just wanted to introduce a statement that I had made at a previous time in a speech to the American Petroleum Institute at Los Angeles in 1950 on the question of depletion, if I may.

I would like to introduce this, because I believe it will be helpful in clearing up some of the prinicples of depletion as applicable to the Fededal income-tax laws.

The CHAIRMAN. Very well. Leave it there.

(The material referred to is filed with the committee.)

The CHAIRMAN. The committee will recess long enough for us to attend the rollcall and ascertain the situation in the House. I am inclined to believe there will be general debate for some time, and, under those circumstances, we can resume during that general debate.

So if you folks can be patient, we can return.

Mr. HARRIS. I wonder, Mr. Chairman, how many more wish to interrogate this witness.

The CHAIRMAN. I know I do. I have not had the opportunity.

Mr. HARRIS. Neither have I, but I doubt if I will want to ask many questions. He has covered the whole field.

The CHAIRMAN. I am very anxious to bring this witness' testimony to a conclusion as soon as we can. I recognize that he has come a long distance, has been here considerable time, and I want to finish as soon as I can with him and allow the other witnesses who are here to be heard. I am hopeful that we can do it today.

I realize it has taken longer than maybe some of you folks expected, and you are all important men in your respective companies, and I am not anxious to keep you here any longer than is absolutely necessary.

So we will return as quickly as we can.

(Whereupon, at 11:20 a. m., a recess was taken until 11:45 a. m., this same day.)

The CHAIRMAN. I want to read into the record a statement.

It has seemed to me appropriate, lest there be any misconception on the part of anyone who has been attending these hearings, to point out that none of the questions which have been asked can be construed in any way whatsoever to indicate that this committee believes there should not be substantial exploration for, discovery of, and development of additional crude-oil reserves in this country, as well as the creation of a reserve production capacity available for emergencies. Indeed, on the contrary, this committee has pointed out, time and time again, the necessity for just such procedure and policy. For that matter, I believe that the committee feels that it early and consistently has called for this program, even before it appears to have been recognized as an essential by those who might be held responsible for putting it into effect.

In this connection, I call your attention to a report of this committee made in the Eightieth Congress, in which we said:

> The United States has a prime stake in the Western Hemisphere becoming self-sustaining in the supply of petroleum. The exploration necessary in the proving of reserves adequate to provide this self-sustaining position should be undertaken when the stringencies of time and materials are less severe than at present.

That was during the Eightieth Congress.

> The alternative is the diversion of critical materials and manpower to such effort and the making of deeper cuts and stricter ration in the civilian use of petroleum during such emergency.

Now, it has become all too evident that the questions we raised in 1948 as to the reliance which might be placed on the import of Middle East oil in time of emergency, on the need to develop Western Hemisphere reserves, and to do such development before rather than during an emergency, went unheeded. Indeed, the big programs of drilling and exploration which have been sponsored by the Petroleum Administration for Defense during the past few years were exactly at the time that materials were required by other parts of our defense program.

Now, it would seem that from all reports the materials situation in steel is presumed to look a little easier some time soon. I am told that this will not develop as quickly in the matter of oil country goods as in other forms of steel, but nevertheless next year, generally, material is not supposed to be in such tight supply.

Now, Mr. Baker, would you think that we should not consider very properly that this is the time to continue exploration and proving up of reserves?

I assume your answer to that is "Yes," as you have already indicated?

Mr. BAKER. Yes, sir; we are engaged in that very aggressively in the industry.

The CHAIRMAN. Well, in that connection, would it not also be appropriate to give consideration to the proving up of the potential resources of our next-door neighbor, Mexico, and even developing some reserves, so that these might be available to us in time of emergency? Where better than in Canada and in Mexico, right next door to us, without the need for ocean transportation, could we have additional reserves, than in these two friendly countries?

From all that you have said and other witnesses have insisted upon, the cost of finding additional reserves in this country has been going up, and you think that it will continue to do so, as oil is becoming harder and harder to find. You also dramatically have pointed out your sad experience in drilling a greater and greater number of dry holes, as you try to locate new reserves. On such a basis, would it not seem the part of wisdom and good judgment to give some thought to proving out some of the area in Mexico, where perhaps the same disappointing results in terms of discovery might not be experienced?

I mention that for this reason: That the studies that this committee has made in the past, and its visits to Mexico on the question of petroleum resources, have made it plain to us that there are many undeveloped fields of considerable size in Mexico, and we know that the same is true in Canada. Now, the point that I am making is, Would it not seem very wise, under the circumstances, to take advantage of proved resources rather than to continually spend money for dry holes in such proportion as you have mentioned?

Mr. BAKER. Would you like to have me comment on that?

The CHAIRMAN. I would. That is the reason I asked that.

Mr. BAKER. We are operating right next door to Mexico, from Texas west to California, and for a number of years we have been desirous of operating in Mexico. We would like to go into Mexico. Under the present laws of Mexico, we are not able to satisfy the requirements for what we consider to be good business. We would be willing to go into Mexico on three business conditions: First, if we could be sure that we were getting some character of satisfactory legal titles that we could stand on. I don't mean necessarily a concession, but some kind of legal right that could afford to invest money on. Second, that we would have the right to manage our operations in our judgment as to when wells should be drilled, where they should be drilled, how they should be drilled, and how they should be operated, and to exercise the other judgments that an operator who invests his money would wish to have. That is the second point.

And the third point is that we would want to have the opportunity to realize a reasonable return on the investments that we made there.

Now, we have inquired into that matter repeatedly and have been in Mexico, but, so far, we have not been able to satisfy ourselves that these conditions could be met and, accordingly, have not been willing to risk our capital in the development of oil reserves under their present arrangements.

And I think that, in the main, that represents substantially the thinking of most of the people in this country engaged in the producing business.

The CHAIRMAN. Are you familiar with the fact that there are American companies operating in Mexico now?

Mr. BAKER. There are some operating under some old concessions and some operating under a type of contract that, from the study of the law by our lawyers, does not satisfy us that we could, with confidence and safety, launch forth on the investment. As I say, we would welcome the opportunity to do what you say, to operate in Mexico, if we could get in under conditions that would seem to us to be reasonably satisfactory.

The CHAIRMAN. I think that you can very readily understand and agree with me as to the advantages to our country that could be gained by having a source of supply that would be available in the event of emergency.

Mr. BAKER. Yes, sir.

The CHAIRMAN. And under such circumstances, where the hazard of tanker operation would be removed, as it would be in that case, would it not seem to you to be appropriate that somebody would sit down around the table and try to work out an arrangement?

Now, that arrangement that you spoke of as not being satisfactory to your company, but which is satisfactory to some others——

Mr. BAKER. A very limited number, Mr. Chairman.

The CHAIRMAN. Very limited. That is true. I would not go into the ramifications of that question of "limited" and why it is limited. I will accept your statement that it is limited. But that is an indication at least, it seems to me, that arrangements can be worked out where men have the will to do it.

Now, in that particular, if you will pardon me just for a moment, this committee has taken a lot of pride in the fact that when it conducted its hearings in Mexico at that time, we feel that we had a large part in working out an arrangement that was acceptable to some American companies. It seemed to us to be just a starter, and to indicate that such was possible. It was gratifying that there were some companies, even though limited as you say, who took advantage of that situation, and have gone in and operated in conjunction with the recognized laws of Mexico.

Have you ever come to a discussion of what the laws are, whether they could be changed—I do not believe they can be—and what opportunity there is to work under the laws of Mexico?

It seems to me, Mr. Baker, that the emergencies are such and our need is so great and our cost of exploration in this country is rising so tremendously, with not the results that we would expect, so that it is about time that somebody would sit down around the table and see how far apart individuals are with respect to that. I do not mean just a spasmodic effort on the part of your company and then a spasmodic effort on the part of some other company, but I mean under proper governmental supervision and cooperation, that interested parties should sit down in a serious way and see if it could not be worked out to the mutual advantage of both countries, and particularly to our own, from the standpoint of emergency.

Do you feel that it is impossible?

Mr. BAKER. I would hope, sir, that in the end substantially what you are saying may be accomplished; that American capital may be invited into Mexico under circumstances that will give the protection and make it attractive in the manner I outlined. I don't know just

what might be accomplished by a program such as you outlined at this time, but I certainly agree with you that it would be desirable in our national interest to have substantial reserves available on this continent, proved reserves, and from our standpoint we would like to expand into a neighboring area near that in which we are now operating, if we could do so in a way that would seem to us to be attractive from a business standpoint.

The CHAIRMAN. When we made our visit to Mexico, it was particularly noticeable that American capital in other lines of industry were going into Mexico at a tremendous rate. I was naturally gratified to see that because, as we build up the economy of that nation, it is helpful to us, it being a neighbor nation, but nevertheless I was surprised at the extent to which it was pointed out to us that large companies in our own country had found it advantageous to invest capital in Mexico, and were carrying on great enterprises there, to the mutual advantage of our companies and to the Mexican economy as well. I am only hopeful that there will be a spirit or a desire to bring about that cooperation that must be necessary.

I know your company has taken a very decided stand on the question of titles to lands and that sort of thing.

Mr. BAKER. I don't think, as I say, that we are insistent on concessions, as that term is used, or that the industry is insistent on concessions, but it is insistent that it shall have what it gets. And there is, as the chairman knows, a different policy in Mexico with regard to oil and gas minerals from these other activities to which you refer. That grows out of this historic program with which you are also familiar, and the change in law which occurred here several years ago. It will require a basic change in Mexican policy.

The CHAIRMAN. Well, when you start to run afoul of the law of other nations, with respect to title to property, you can very easily get into difficulty there, as well as we do at home when we step over a neighbor's line too far, put up the fence inches out of line, and that sort of thing. What we are going through in the Near East is that conflict of interest. And it is because of all that that I realize that it is not an easy problem. But it is, nevertheless, a problem where the results are so advantageous that it seems to me it would be worthwhile to sit down and try to work out some kind of a program that would be mutually satisfactory.

Mr. BAKER. You are conscious of the difference, of course, between the Mexican policy and the policy of Venezuela, for example, and other South American countries in that respect?

The CHAIRMAN. Well, I am aware that there are differences, the same as we experience whenever oil companies have gone in in foreign countries. They have had to more or less adapt themselves to the laws of that country. I only hope that conditions continue well in these other countries where you are located at the present time.

Well, that is enough for that, I suppose.

Mr. HARRIS. Mr. Chairman, will you yield to me on that point, before you leave it?

The CHAIRMAN. Yes.

Mr. HARRIS. Mr. Baker, your geology division, I assume, has made very exhaustive studies in Mexico, has it not? surveys, and so forth?

Mr. BAKER. I wouldn't say "exhaustive studies," Mr Harris. We have considered the area.

Mr HARRIS. Have you had opportunity to study the geology or the surveys that others might have made?

Mr. BAKER. It is a favorable province for the finding of oil.

Mr. HARRIS. Is your company satisfied that there exist rather large reserves of oil in Mexico?

Mr. BAKER. Yes; I think so.

Mr. HARRIS. Now, a few of these other companies are in Mexico under arrangements worked out some years ago. Could you give the committee any information as to what success they have had in the developing of reserves in Mexico?

Mr. BAKER. I am not too familiar with that, Mr. Harris. The Pemex, which is the Government monopoly, has had some recent successes, I understand, in the development of prospects in the area of the old Golden Lane.

Mr. HARRIS. Do you know how much the production has increased in Mexico, say, in the last 5 years?

Mr. BAKER. I don't have those figures in mind, Mr. Harris. I am sorry.

Mr. HARRIS. That is all.

The CHAIRMAN. Any further questions, gentlemen, on that point? If not, I will go ahead with my questions.

What information could you give us as to American companies participating in the production of oil in Canada?

Mr. BAKER. I can't give you anything that you could depend on offhand. I would rather not undertake to make a statement, because I am afraid I don't have enough information to make a statement that I could stand on.

The CHAIRMAN. In your statement, you set forth what determines prices, starting on page 2. In that connection, I think the statement you made in response to our 1948 questionnaire is somewhat more succinct, and I should like to discuss it with you.

Mr. BAKER. Excuse me. May I get a copy of that statement so that I can follow it with you?

The CHAIRMAN. I am only going to read a small portion of it. I am calling to your attention now what you said in 1948 in connection with what you said on page 2 of your statement. The quotation from 1948:

> It must be borne in mind that in the short run price is determined by the relationship between demand and supply and not by costs. In the long run, if the margin between price and cost of production becomes unduly larger or small, economic forces are set into effect to adjust supply and demand, and again restore a balance in which price provides a reasonable return in relation to cost.

Now, that seems to me to be a rather significant and well-expressed statement of the principles which I have assumed are at work in our system of free competition and free markets.

Mr. BAKER. I agree with that statement.

The CHAIRMAN. Well, you made it.

Mr. BAKER. I helped make it. I didn't make it.

The CHAIRMAN. And that is one point we are agreeing upon.

Of course, it was made in 1948, at a time when demand was running somewhat ahead of supplies. Since then we have had a tremendous gain in our petroleum productive capacity, as you have pointed out.

Now, what I would like to do is analyze that statement as it applies to your pricing action in the situation today, first from the short-run viewpoint.

Mr. BAKER. Mr. Chairman, could I interrupt there a moment? I don't recall at what period in 1948, but in the latter part of 1948 supply outran demand. In the forepart of 1948 we were pretty well in balance, as I recall. But in the latter part of 1948 we had a very large accumulation of inventories that was embarrassing to us in 1949. I don't know just how that relates to your introductory statement, but I think that is a fact.

The CHAIRMAN. Now, what was there—and we are speaking now of the short run, so to speak, as you speak of it. I think you call it the short-run viewpoint. What was there in the demand-and-supply situation—and you say demand and supply determines price rather than cost—why you felt, on June 15, warranted a 25-cent increase in price? Now, we are speaking of the short-run viewpoint.

Mr. BAKER. Mr. Chairman, I have undertaken in this statement to give those forces, and I thought I set forth my views on them pretty well yesterday. The long-range forces that were operative in June are those growing out of the influence of cost upon supply in relation to demand. And the costs had continued to rise, at that time, over such a long period of time, since there had been an adjustment in price, that it, as a long-range force, was compelling that prices go up, because this margin was continually growing less. And just as in 1946, when we had this 25-cent increase to which Mr. Wiess' statement that I read yesterday applied, we have had this thing dammed up for 2 years, and the forces of supply and demand, the basic forces, were operating during all that time, but they couldn't find expression because of the price controls. Those long-range forces are still at work and were strongly operative in June, at the time the price advance occurred.

Now, on the short-range aspect of it, in the early part of the year, the effect of the warm winter last winter had adversely affected the demand for heating oils, and the inventory position of production generally east of California. And that was a force that I think deterred the purchasers of crude from naming an increased price at that time, or the sellers of products from naming a higher price. I know it certainly deterred us from doing it. We were considering these long-range forces a considerable time before the controls were withdrawn. The fact that nobody moved except Socony on product prices indicated that it was a deterring factor to all of the people involved.

And when Socony did move, on the price of gasoline, nobody was willing to follow.

Now, the adverse effect of this warm winter was rather temporary. In March, and the second quarter, demand became much stronger, with substantial gains over the preceding year, and in May it is estimated that the demand was nearly 11 percent higher than a year earlier. Supplies remained at a high level, but the improvement in demand, considering the seasonal factors, resulted in a stronger market. And early in June these influences, the long-range influences, which would have resulted in a price earlier except for these unfavorable short-range influences, were left free to operate, because both the short-range and the long-range influences combined to make

it seem that a price increase was in order. And those factors, and the consciousness and knowledge of those factors and forces, were present with people in the industry generally. They were well understood and well known. And to my mind that is the reason why the initial price advances were followed generally, but, of course, with the adjustments which I referred to yesterday.

The CHAIRMAN. Do you remember all through your statements whether now or in 1948 you laid great emphasis on the question of demand?

For instance, in 1948, you stated:

At that time—

Mr. BAKER. I would like to be sure that I know just what is being referred to as "at that time." Was that the time in 1948. Is this referring to the Phillips advance?

The CHAIRMAN. Yes.

Mr. BAKER. That was not met?

The CHAIRMAN. Yes.

Mr. BAKER. I was just trying to get the factual statement in mind. We don't seem to have with us that statement.

The CHAIRMAN. In December of 1948 you stated:

At that time—

I think it refers to an attempted increase of 35 cents a gallon in September of 1948.

Mr. BAKER. By Phillips, led off by Phillips?

The CHAIRMAN. By Phillips. That is right. And it was rescinded in December of 1948.

Testifying before this committee in 1948, you stated:

At that time, there was a slackening in the rate of growth of demand, a rapid accumulation of inventories and some weakness in product prices.

Now, on page 7 of your statement yesterday——

Mr. BAKER. I don't have that with me. I am sorry.

The CHAIRMAN. Here is a copy of it.

On page 7 of your statement, you say:

There was no general increase in petroleum prices east of California at the time that price controls were removed. A warm winter had adversely affected demand for heating oils and the inventory position of products generally east of California. In February an increase in gasoline prices by an east-coast marketer was not met by competitors and had to be abandoned.

Now, will you explain, solely from the supply, why high inventories in 1948 and high production, too, did not then warrant an increase, whereas high inventories and high production in 1952 do?

Mr. BAKER. The difference is in the effect primarily of the demand factor. The demand factor in the latter part of 1948 was weak. It was slackening off. But the demand factor in June, or in this year, was high; and, as I point out here, in May the demand was 11 percent higher than it was a year ago. So the factor of demand, which is the other force operating on price with the supply, had a more powerful influence in June of this year, whereas it was a weakening influence in September and December of 1948.

The CHAIRMAN. What you have just said confirms what I said a moment ago, that you lay great stress on the question of demand.

Mr. BAKER. Well, I lay stress on both. You can't ignore the two factors.

The CHAIRMAN. I think you do lay stress on demand very certainly.

Now, let me bring to your attention some other things that you said in that connection:

> In other words, it was not the supply side of the situation but the demand side—

as you have been emphasizing—

> which makes a difference.

Now, the key word on page 3, as to 1948, page 3 of your statement: You use these words: "demand had slackened." You say again how "demand" is the key word. Demand had slackened. And on page 7, speaking of 1953, as of February, you say:

> Demand was adversely affected, but in May improvement in demand resulted in the stronger market.

Mr. BAKER. Yes, sir.

The CHAIRMAN. So there is no doubt that you lay great stress upon demand.

Mr. BAKER. Yes, sir. The two factors. We have to lay stress on both of them. Both factors are active. At one time you may have the supply side as the active thing. For example, if you had a steady demand, and you cut your supply in half, then your supply would be the very active factor at that time. Or if your demand were steady and you doubled your supply, then your supply thing, under those conditions, would be the dominant force at play in the market. And vice versa. If your supply is level, and your demand is sharply cut, then you have a force weakening the market. If, on the other hand, your demand is sharply increased, you have a strong powerful force tending to move the markets up.

The CHAIRMAN. And when that exists, that is when you put the price of oil up; is that right?

Mr. BAKER. If the demand is a strong, active factor at a given time, it tends to move the price up; yes, sir.

The CHAIRMAN. And that condition existed in June, did it? Was that the condition in June that brought about the increase?

Mr. BAKER. Yes, sir; we had a strong active demand, which has been growing. This demand, Mr. Chairman, broadly speaking, has been growing ever since the war. And broadly, we have had about a 5-percent increase in demand each year. That may not be exact. It is above and below, but on the average it hasn't been far from a 5-percent increase; which means that we have had all the time a very active demand.

Now, that demand, within the general upward trend, may have some fits of weakness and some fits of strength, still moving broadly on an upward plane. That is the situation that we have had.

The CHAIRMAN. The Phillips Co. said that they increased this 25 cents a barrel because they wanted to carry on explorations. Now you say it is because of an increased demand. Which was it so far as your company was concerned that led them, within a few minutes of Phillips Co. to raise your price?

Now, they raised it, as he stated here the other day, as the witness testified, on the basis of increased costs and desire for discovery, and so forth.

Now, I am rather of the opinion, from your statement, that you followed him a few minutes afterward on the basis that there was a stronger demand.

Mr. BAKER. Well, Mr. Chairman, these answers are not at variance with each other basically.

The CHAIRMAN. Not in the net result. The net result is an increase in the price of crude.

Mr. BAKER. Well, the net result is, the net cause is, that these things are operative; and if we are to carry on an active aggressive program of exploration and development with costs going up like they are, of necessity the income side has got to go up. And that is what Mr. Keeler was referring to, that the increase in income to these producers from whom he was buying oil is a stimulus to further investment and will tend to bring out more production. So the two statements are not irreconcilable, are not in irreconcilable conflict at all. They are part and parcel, really, of the long-range look at the market situation.

The CHAIRMAN. Well, of course, there may be a difference, in our opinion, with respect to that.

Mr. BAKER. Yes, sir.

The CHAIRMAN. In your statement you said, furthermore:

> Economic forces are set into effect to adjust supply and demand.

What do you mean by economic factors? What are the economic factors to which you referred when you made that statement?

Mr. BAKER. Well, just to use an illustration, I would like to get the connection in which that is said, so as to tie this to that statement. What is that point in the statement? That is in the 1948 statement?

Mr. THORNBERRY. It is in the 1948 statement.

Mr. BAKER. I was just trying to get the connection to see how this statement is tied in.

The CHAIRMAN. I turned over a page that I did not realize.

Yes, that is the 1948 statement.

Mr. BAKER. I don't have that with me.

The CHAIRMAN. It was my mistake. I turned over a page that I was not aware of.

Now, what I am trying to get at is: With that statement that economic forces are set into effect to adjust supply and demand; just what do we mean by "economic forces"? Now, for instance, would you mean that the reduction in the amount of oil allowed to be produced by various State agencies is an economic factor?

Mr. BAKER. Yes; it is an economic factor. Anything that affects supply or anything that affects the demand has an effect or tends to have an effect. It may not immediately be realizable in a price change. But it has an effect in the price relationship.

The CHAIRMAN. Well, do the companies ever take corrective steps to affect supply and demand?

Mr. BAKER. Yes, sir, they are doing it all the time as far as the supply is concerned, and they are hoping to affect the demand all the time by improving their products and delivering them at as low a cost as they can.

The CHAIRMAN. Well, Mr. Jennings, in his testimony in May last, spoke of corrective measures to reduce supply. And then Mr. Swens-

rud, chairman of the Gulf Oil Co., also testifying before the Ways and Means Committee on May 13, called it self-restraint. Are they economic factors?

Mr. BAKER. Yes, sir, they are economic factors. Self-restraint is always an economic factor. That is one of the things that I was trying to get at in the questioning this morning, about whether or not the motorists could do anything about it. The motorist who doesn't want to pay the price for gasoline has several alternatives. He can cut down on the number of trips he takes. He can use automobiles that use less gasoline than the high-powered cars that he may be driving. He may use restraint in a number of ways to affect the market, if he is unhappy with the price. And all of those things do have an effect upon the demand side of the picture. And it is the aggregate of those forces on the demand side that affect the supply-demand relationship and the price.

The CHAIRMAN. Mr. Swensrud, in his testimony, said this, and I will quote the exact language:

> Following conditions such as these, the rate of supply must be retarded until demand catches up, and certainly under such circumstances it is reasonable that both imports and domestic production should share in the cutbacks. In most matters of this kind, however, it may take some little time for the adjustment to occur. Some people do not wake up to the fact as quickly as others, and existing schedules and inertia make for delays in the needed adjustments. Nevertheless, I believe that oil importers along with domestic producers—and most importers are also domestic producers—appreciate the problem and can be relied upon to exercise reasonable self-restraint when the facts are clear.

Now, how do you interpret that "self-restraint"?

Mr. BAKER. Well, I think it means this: Let's just take the domestic producer first.

The domestic producer, or maybe the domestic purchaser, would be the better one to take first; and the domestic producer may be content to produce less oil and to cut down on his production and his refinery runs. That would constitute a self-restraint. It is no different, Mr. Chairman, from the manufacturers. When the supply of any product being manufactured outruns the demand, people cut down on the capacity of their plants. They exercise self-restraint to cut down on the supply side, to bring supply back into balance with the demand. And this is no different from a fellow who makes handkerchiefs or the fellow who makes shirts, or the fellow who makes any other commodity that is consumed by the public.

The CHAIRMAN. Well now, did General Thompson have in mind this self-restraint and corrective measures that were referred to by Mr. Jennings and Mr. Swensrud, when he said that at the time that July allowables are set—"the industry must go forward—could go forward if caution is exercised by all elements now"?

Mr. BAKER. I, of course, Mr. Chairman, don't know what General Thompson had in mind, but I would surmise that he had in mind that if—that those who can—if those who can influence the supply picture find it desirable from their standpoint to exercise caution to avoid an oversupply, they will have a wholesome situation.

The CHAIRMAN. Well, do you mean by that that the oil companies join together in an agreement to cut down supply?

Mr. BAKER. I don't believe that at all. I think the general was not talking about any agreements or any understandings of any kind.

He was just talking about people using horsesense in the light of problems that they face.

The CHAIRMAN. The significant thing about this idea of using horsesense, as it strikes me, is that so often the horsesense is exercised at the same time by the different companies. In this instance, they increased it 25 cents a barrel, and with a few hours or a few minutes you people had used horsesense and increased yours to equal that. And the others used horsesense, some of them a little bit later, and so on. But horsesense was increasing the price all the way along the line.

Mr. BAKER. Mr. Chairman, if there is a good movie that comes to town, people get the idea at the same time of going to that movie.

The CHAIRMAN. Yes.

Mr. BAKER. They all go to the movie, because it is an attractive thing to do. If the conditions are favorable for an advance, or the forces at work have made an increase in the price a sound thing, is it any wonder that people engaged in the same business and looking at the same facts will arrive at the same conclusion, any more than that they will go to an attractive movie or that they will go to hear a speaker, or be impelled by any other set of facts that bear upon their minds in the same way?

The CHAIRMAN. The person who goes to the movie usually has to do it within the time that the movie is to be shown; whereas you folks, as you testified yesterday, had been considering this matter for months, and you were of the opinion that an increase was due. But you did not go to the movies and increase the price then. You waited until the Phillips Co. did it in June. Then when they decided to go to the movie, in your illustration, you decided to go the same night, within a few minutes.

Mr. BAKER. Well, we might even decide that. I have been to movies where we couldn't get in because so many people had the same idea at the same time.

If you put on a sale at a store, the public comes in there at the same time, relatively, to buy those goods. And you will find these women clawing over a counter, all trying to get there at the same time, because there is an economic motive or force that is drawing them into the purchase.

Now, these forces are operating on both sides of the scale, on the supply side and on the demand side, and they are affecting people who arrive at conclusions normally, on the basis of the facts that they find before them and that is all this market business is.

The CHAIRMAN. Now, Mr. Walter Pound, the Oklahoma conservation director, stated, in making reference to a dispute over the respective allowances in west Texas and Oklahoma: "Nor has any credit been given us for our attempt to cooperate in reducing crude oil stocks." What do you interpret that complaint to be based on?

Mr. BAKER. Well, I am not sure that I know, Mr. Chairman, and therefore what I say here may not be of any value. But we have been in a situation where we have been accumulating stocks of petroleum and products. It is true that we have had a growing demand, which has not outrun that supply problem. But it was a little acute. And the current demand was lower than the current supplies from imports and domestic production.

Now, the Railroad Commission of Texas, in a period of time, reduced the allowables in Texas by about, as I recall, 350,000 barrels a day.

It is very obvious that in the effort to balance supply and demand, if Oklahoma at the same time increases its supply, and Louisiana increases its supply, and the other States increase their supply, that offsets the effort of the Railroad Commission of Texas to bring about a balance. Or if the importers keep bringing in added supplies, that aggravates the problem. And your supply continues to outrun the demand.

And coming back on Texas, which is the most prolific producing area in this end of the country, or in the country, they might get right back to the same problem they were at before they made the cut. And, first thing they knew, they might have a lot of disconnected wells and producers who had no markets, and the purchasing companies would be having to put in purchaser proration and take less than the full allowable from their property. And we get into a general condition of chaos.

Now, under those conditions, it is desirable, in the general effort for conservation in this country, and in the general effort to develop and maintain this reserve productive capacity, which you, I take it, you are for, from your statement, which you feel is essential, and as the defense people feel is essential—we can't bring about and provide unless the cut is made below the maximum efficient rates. And I take it that the statement here is that Oklahoma would cooperate by cutting its allowable to an extent, and it would also involve, in Mr. Swensrud's language, self-restraint on the part of the producers in Oklahoma, to be satisfied with less than production at the maximum efficient rates under those conditions.

There is nothing wrong there, and it is all in the interest of the American public. And it is a procedure that has been developed through a great amount of effort and experimentation and trial and error through a period of certainly 25 years.

The CHAIRMAN. Well, coming back to the practical situation, I would take it generally from your testimony that the increase of price you felt could be sustained because the demand was present, and if that demand had not been present you would not have increased it, no matter what your costs of discoveries or exploration would be?

Mr. BAKER. That is correct, Mr. Chairman. But I wouldn't say that our action was based exclusively on the question of demand. Because it is demand in relation to the supply, a long-range supply, in relation to costs. Those factors are all tied in. And I don't think you can just put your finger down and say "This is it," without considering any other factors.

The CHAIRMAN. Well, I realize there are many factors, but as each of you emphasize different factors, I can only deal with one at a time, and while we are speaking of demand, it seems to me that the policy is such—and you cannot take it in any other way—that the oil companies in June thought that the people would pay more for gasoline and would buy just as much, regardless of the increase, and so they raised the price; in other words, on the basis of demand, that it would be supported because of demand. Now, that is my conclusion. I do not assume that you would agree with it.

Mr. BAKER. No, sir; I couldn't agree with it.

The CHAIRMAN. Now, is there any recourse for consumers, except from a free market where sellers compete with one another?

When all companies raise prices simultaneously by like amounts, or when all companies exercise self-restraint to reduce the supply by retarding the rate of production or the amount of imports, what can the consumer do to protect himself, when the companies all act together?

Mr. BAKER. Mr. Chairman, I don't quite understand the basis of the difficulty you are having in appreciating the effect of the interplay of these forces and the effect upon the wills, the minds, and the will of those people who are engaged competitively in the same business, conscious very much of the same facts. I don't quite know how to show the effect of the interchange of these forces any more clearly than I have.

Now, maybe if we changed it over to wheat or to some other product, we could get at it a little easier.

The CHAIRMAN. I do not know. You see, what I am basing my thought on is this: That by self-restraint or corrective measures, according to whose testimony you want to use, there is a tendency to cut down supply.

What I have in mind is that when the companies feel there must be corrective steps taken, they cut down supply. And through the commissions in the several States, through your own efforts, you cut it down. But it is a condition that is recognized by all the companies and acted upon by all of the companies, generally speaking. Maybe there are some exceptions. And then on the other hand, when you come to the question of demand, and the demand is strong enough, then one company takes the lead in increasing the price and another one follows it because it thinks the demand will make it stick.

Now, the best evidence that there seems to be some kind of understanding—I do not say it is formal agreement—is that when companies act together, so closely together—I say: What can be done by the consumer?

Mr. BAKER. Let me illustrate this in this way, Mr. Chairman. I was born on a farm and we used to raise cotton and sometimes the price of cotton would fall very low. As to supply, we had more bales of cotton than we needed, and it would pile up. Well, the farmers would exercise self-restraint on cotton planting. They would transfer a piece of ground from cotton to oats or to corn or to some other commodity. They exercised restraint, realizing that they had an oversupply of cotton. Now, in another year they would have an oversupply of oats, and they would cut down on their oat acreage.

The same thing applies to the manufacturer. If there are too many textiles being manufactured, the textile manufacturers instead of producing at capacity produce at less than capacity. The manufacturer tries as best he can to gage what he should do in relation to the total amount of his product that is going to be produced, and in relation to what he expects the demand to be, as near as he can estimate it. And the businessman in any line of activity, whether it is oil or in agriculture or in lumber or in a manufacturing or whatever it is, undertakes to regulate as far as he can this supply in relation to the demand. And there is nothing unusual or difficult basically in what is occurring here, from what occurs in all other lines of business.

Prices are followed or not followed in other businesses just as they are followed or not followed here. And it seems to me to be very important in this connection——

Mr. HESELTON. I understood you to say there is nothing unusual in the situation in the oil industry in contrast to what happens in other businesses. Do you know any other business that operates under the combination of the State boards or agencies and an interstate oil compact?

Mr. BAKER. I said basically, on these supply factors. Now, on that point, Mr. Heselton, the Interstate Oil Compact Commission has no control whatever over oil production. It has never undertaken to have any control over it or any effect on it. The Interstate Oil Compact Commission has been an organization set up for the encouragement of conservation and conservation practices and the interchange of knowledge and the encouragement of improved technology and techniques in the business, with the idea of getting supplies and conserving them. But it does not exercise any powers at all.

Mr. HESELTON. I do not think you need to labor that point. We all realize that. What I am saying is that the combination of these things with reference to the oil industry does not exist anywhere in our economic system except as to the oil industry. And that makes it unusual.

Mr. BAKER. There is the basic difference between oil and gas production and the production of solid minerals, and from agriculture, and from manufacturing, in this—and that is a very fundamental point bearing upon conservation—that those who own properties in a common oil pool are bound by the forces in that pool that tend to drain from one tract of land to another tract of land when a well is developed on the second tract. And as I explained yesterday, experience has shown that in a fully competitive economy, the tendency will be for each man to drill wells as fast as he can and produce them as fast as he can, which has the effect, overall, of quickly bringing on to the market a lot of oil and flushing it out of these fields.

Now, in the exercise of the police power of the State for the protection of the public interest in an irreplaceable natural resource of limited supply, the States have come in to exercise police power in these reservoirs to say to this man, and to all of them: "You can only produce from this field at rates that within engineering sound practices will not result in waste, and it shall be taken ratably from the pool based on that allowance."

Mr. HESELTON. Based on the market demand?

Mr. BAKER. The main method, Mr. Heselton, is the limitation to the efficient rates from each pool.

Mr. HESELTON. Yesterday, you admitted that it was based just as much on market demand, whichever was lower.

Mr. BAKER. Whichever was lower. That is right. Now, if the maximum efficient rates of production in these pools, in any given pool, is 20,000 barrels above the market demand, and that is fixed as the allowable from the field, it can't be taken, because there are no purchasers for it. There is a purchaser for only that part that they want. And that means that certain wells go unconnected.

Mr. HESELTON. And certain wells are set below the maximum efficient rate. Is that right?

Mr. BAKER. Well, it means that they are all cut below the maximum efficient rate if the market demand is applicable.

Mr. HESELTON. And they are kept there solely because of the market demand?

Mr. BAKER. But it would result in physical waste unless that were done.

Mr. HESELTON. I do not want to trespass on the chairman's time, but I want to read two paragraphs.

The CHAIRMAN. May I say right there, Mr. Heselton: Do not feel that way about it. What I intend to do is to submit the questions that I have remaining to the witness so that he can answer them in the record, and that will save time. You may feel perfectly free to go ahead.

Mr. HESELTON. I do not want to go further with this point. This is from the final report of the Senate Special Committee To Study the Problems of American Small Business, I think it was known as the Wherry committee, January 30, 1947:

> The oil control policies in effect in the United States consist of a series of State and Federal statutes, recommendations of committee made up of integrated oil company economists and recommendations as to market demand made by the Bureau of Mines of the Department of Interior. No single item is in itself controlling. Taken together they form a perfect pattern of monopolistic control over oil production, the distribution thereof among refiners and distributors, and ultimately the price paid by the public.
>
> "Monopoly," as generally understood, means the control of a product both as to quantity allowed to reach the market and price. If you control the quantity, you automatically control the price. Hence, the petroleum industry can be set down as definitely a monopoly. It is supported on a tripod, the first leg being the proration laws of the oil-producing States, the second being the Federal Government in the form of legislation, and the third being the large oil companies and oil producers.

Mr. BAKER. Do you want comment on that, or do you just want to read it into the record?

Mr. HESELTON. If you want to comment on it, of course, you may.

Mr. BAKER. I think that statement is based on a complete lack of understanding of the physical facts and the operating conditions in the petroleum industry and the manner in which the conservation agencies operate. And I have been pretty close to that thing. I think that was written by Mr. Hadlick. I have been pretty close to this thing over a long period of time, have been immediately and directly affected by it in the allowables which we have had, and I am well convinced that it is a total misunderstanding of what actually occurs and of the relationships that are involved.

Mr. HESELTON. May I just add there for the record that apparently the committee was made up of 12 Members of the Senate, and I see no indication that there was any dissent. The Oil Subcommittee was chairmanned by the late Kenneth S. Wherry, Irving M. Ives of New York, and James E. Murray of Montana.

Mr. HARRIS. Mr. Chairman, the gentleman mentioned, if I may say so, this so-called Wherry report, or it has been brought up in this committee on numerous occasions. I think it is well recognized that there are differences of viewpoint as to the philosophy which was evidently concluded in that report. So far as I have been able to see, I do not know that the Congress itself has ever taken any actions that would indicate that it would go along with the philosophy

stated in the so-called Wherry report. It is a known fact that Mr. Hadlick was an employee of the committee. I would not want to say that Mr. Hadlick wrote the report. There is no question in my mind as we know the operations of these reports and how the Members of the House and Senate reached the conclusions, that the professional staff and those who worked with the committee do have something to do with the actual preparation of such report. I just merely want to say that, in view of the fact, that this matter has been brought up, there is no doubt that there is a difference of opinion on the part of a great many people as to the validity of a great many of these policies which the Government and the Congress have established in the oil industry. One of them is the conservation practice and the other is the question of depletion, and another is the question of the compact commission, and there are many others that we can mention.

I am sure that some of those things are basic in the minds of some members of this committee and Members of Congress, as this whole field is considered. It is a highly complex problem. The industry itself is complex. I must say very frankly that, in my opinion, Mr. Baker has given us, over the last few days, quite a lesson in the operation of the oil industry from his own company's viewpoint. It has been very clearly stated by him that there has been a general or average increase in the price, but his company's approach to the increase, Mr. Chairman, is somewhat different than other companies who increased it—one company, in particular, across the board. His own company was 10 cents per barrel and according to the gravity as much as 35 cent per barrel.

Other companies testified that their increase of gas to the consumer went up 1 percent. He testified his own company's increase was seven-tenths of a cent.

There is a slight variation in this industry like in all other industries. I did not intend to enter into a discourse, but I did intend to ask, Mr. Chairman:

What is the intention of the chairman with respect to the program for the rest of the day?

The CHAIRMAN. I do not know whether the gentleman from Massachusetts has any any desire to question the witness further or not.

Mr. HESELTON. No.

Mr. HARRIS. Frankly, I have a very important meeting of my delegation that I have got to go to.

The CHAIRMAN. The situation that confronts us I will endeavor to meet as well as I can by suggesting that the balance of the questions which I have to ask, which are prepared here, will be submitted to the witness so that he can make his answers to them in the record.

Then I am ever conscious of the fact that Mr. Burks, representing the Esso Co., Esso Standard, is here and has been here since Monday.

I am wondering, in view of the situation that confronts us, Mr. Burks, it is not a very pleasant outlook that we have from the standpoint of availability of time either today or tomorrow. In that connection, I am afraid we will be terribly cut up this afternoon by the ringing of bells and the necessity of being on the floor to vote. And tomorrow the House will convene at 10 o'clock. So I am wondering, Mr. Burks, would it be inconvenient for you to be here on Monday? Or would you prefer to stay this afternoon and take your chances

on what we can do in view of the business of the House? It is not very certain and may be just useless.

I would prefer, if you are willing, that you come back on Monday.

Mr. BURKS. I can fit my plans in with yours, Mr. Chairman.

The CHAIRMAN. That is very kind of you, Mr. Burks.

I appreciate your cooperation in that respect. I can assure you it is embarrassing to me to have to speak to you and make this request at this time after you have been here since Monday hoping to be heard. But it will be helpful to the committee, and I think will be helpful from your own standpoint, if you appear on Monday instead of making an attempt this afternoon.

Mr. HESSELTON. Mr. Chairman, may I make a suggestion?

I call to your attention and to Mr. Harris' attention the fact that within the last week in the northeastern part of the country apparently there has been a cutback in the established posted prices on heating oil. I think that runs to 6 or 7 of the marketers. I am not sure whether your companies cut that back or not. But over the weekend I think it would be extremely helpful to us if you could put together whatever that picture may be, so that we can have your overall analysis of what has happened in the last week.

Mr. BURKS. Mr. Heselton, I would just like to answer that our company reduced the price of heating oil.

Mr. HESELTON. I did not catch that.

Mr. BURKS. I say our company was the first to reduce the price.

Mr. HESELTON. I had in mind when I suggested that, that you could probably speak quite forcibly to it.

Then the committee will recess?

The CHAIRMAN. Until Monday morning at 10 o'clock.

Mr. BAKER. Mr. Chairman, may I say to you, sir, that I appreciate the opportunity that you have afforded me to appear here and to present our viewpoints on this question, sir?

The CHAIRMAN. We are very appreciative, Mr. Baker, of your presence before the committee. We are fully aware of the important position you occupy in the industry, based upon your long experience and your close contact with it over so many years.

So it has been a pleasure for us to have had you here as one of the witnesses in these hearings. We appreciate the effort that you have made to present to the committee the viewpoint that you are so thoroughly convinced of as being the right viewpoint. I assure you that we will have full consideration by the committee in connection with all the evidence that we take in this matter.

There are, of course, times when newspaper accounts would indicate that the mind of the committee had been made up. But the committee has not made up its mind on any subject yet in connection with this matter.

It is our desire to get to the bottom of the matter, as to the reason for the increase at this particular time and the unanimity of action between the particular companies not only with reference to this increase but to other increases and other actions by the industry.

Now, in conclusion, may I ask that you submit data on the development costs and depletion similar to what we have asked the other companies to submit?

And if you have any doubt about it, you may confer with Mr. Stevenson of the staff, who will make plain to you what we have asked of the other companies.

Is there anything further?

We will recess until 10 o'clock Monday morning.

(The following material was later received from Mr. Baker:)

HUMBLE OIL & REFINING CO.,
Houston 1, Tex., October 6, 1953.

Hon. CHARLES A. WOLVERTON,
Chairman, Committee on Interstate and Foreign Commerce,
House Office Building, Washington, D. C.

DEAR MR. WOLVERTON: I have your letter of September 23 in regard to my letter of September 9 and the attachment, which supplies additional information with respect to Humble's depreciation and depletion charges for the years 1950, 1951, and 1952.

Your letter requests that we furnish this information in the form originally suggested.

While, as we have previously indicated, we believe that the form has serious limitations, we have nevertheless acceded to your request and are enclosing herewith the original form for the years indicated. Opposite each item we have indicated the accounting treatment given it and have set forth some of the erroneous impressions created by the comparison.

In our opinion, no valid conclusion can be reached by comparing depletion charges made for book and tax purposes. The depletion allowance for tax purposes, as has been pointed out, recognizes that income from producing properties is in part a return of capital and also takes into account the very high order of risk involved in the exploration for and discovery of petroleum.

You will note that we have not attempted to convert dry gas to an oil equivalent because we know of no universally accepted standard for making this conversion.

In your letter you state that the form included with our September 9 letter included a capital item. Presumably you are referring to item 5 entitled "Lease purchases." As explained therein, lease purchases are capitalized at the time of acquisition but as leases are surrendered they are charged against income for book purposes and for determination of taxable income. The cost of leases which have become productive is recovered through book depletion over a period of time. This information was supplied in order more fully to acquaint you with the manner in which lease purchases are handled both for book purposes and for determination of taxable income.

Sincerely,

HINES H. BAKER.

Humble Oil & Refining Co.—Information requested by the Honorable Charles A. Wolverton, chairman of the House Committee on Interstate and Foreign Commerce—for the years 1950, 1951, and 1952

Production	1950	1951	1952
Crude oil (barrels)	103,113,000	127,088,000	127,954,000
Natural gas liquids (barrels)	7,562,000	9,463,000	10,615,000
Gas production sold (thousand cubic feet)	169,441,000	214,766,000	241,877,000

Charges to expense for year	1950		1951		1952		Explanation
	Per books	For income-tax purposes	Per books	For income-tax purposes	Per books	For income-tax purposes	
1. Depreciation, depletion, and amortization of capitalized costs:							
(a) Lands and leaseholds	$2,008,080.00		$2,333,686.00		$2,769,328.00		Depletion of leaseholds and depreciation of lease and well equipment are computed for each individual lease by the per barrel unit method. The per barrel unit rates shown are averages determined by dividing the total cost depletion and the total depreciation charge for the year by the total number of barrels of crude oil produced.
(b) Geological and geophysical.							
(c) Productive wells (equipment and materials on producing properties).	7,304,556.00	$6,994,507	9,734,967.00	$9,332,653	11,646,612.00	$11,600,726	
Per-barrel unit:							
Depletion	.0195		.0184		.0216		The charge for book depletion of lands and leaseholds is not comparable to depletion allowed for tax purposes because book depletion generally covers only bonuses and commissions paid in the acquisition of leases. Low-cost oil and gas reserves acquired many years ago and currently being produced must be replaced today at substantially higher costs. Accordingly, charges for book depletion do not begin to measure the much higher costs that are being incurred in finding new reserves to replace current production. The amount spent by Humble in its efforts to find and develop new reserves was $121,210,411 in 1950, $167,533,950 in 1951, and $203,823,860 in 1952.
Depreciation	.0708		.0766		.0910		

2. Intangible drilling costs, productive wells.	18,016,000.00	36,243,775	24,660,200.00	61,162,926	28,458,000.00	63,044,110	Intangible drilling costs incurred in connection with productive wells are capitalized on the books and are written off to expense by the per barrel unit method. The per barrel unit rate is an average determined by dividing the total depreciation charge for intangibles by the number of barrels of crude oil produced. For income-tax purposes, intangible drilling costs are written off to expense in the year expended. Over the life of any property, however, depreciation charges for intangible drilling costs per books will equal the intangible costs deducted for income-tax purposes. The provision for expensing of intangibles for tax purposes is simply designed to make funds available for immediate reinvestment so as to encourage further development of oil and gas reserves.
Per barrel unit	.1747		.1940		.2224		
3. Nonproductive well (dry-hole) costs.	23,905,748.00	23,906,712	29,281,514.00	29,281,514	43,065,114.00	43,065,114	Costs of nonproductive wells are expensed for book purposes as well as tax purposes in the year the well is determined to be nonproductive.
4. Other expenses or writeoffs or nonproductive properties either as direct charges to expenses or cancellation or abandonment of leases, as:							
(a) Lands and leaseholds	6,676,446.00	6,762,906	6,111,600.00	6,229,704	7,281,314.00	7,412,642	Lands and leaseholds acquired for exploration and production are charged to expense in the year surrendered. Usually the amount charged off for tax purposes exceeds the amount charged off on the books because the Bureau of Internal Revenue requires capitalization of some expenditures for tax purposes which are expensed on the books.
(b) Geological and geophysical.	15,473,299.00	14,548,436	19,687,125.00	15,794,352	24,454,331.00	21,025,169	All geological and geophysical expenditures are expensed on the books. For tax purposes the portion of such expenditures attributable to lands or leases acquired or retained on the basis of information developed in connection with the geological and geophysical work is capitalized. Geological and geophysical expenditures capitalized as part of the cost of a particular tract of land or a lease are written off to expense when the land or lease is abandoned or surrendered. If the property is productive the cost is written off through book depletion charges.
(c) Delay rentals	8,525,698.00	8,609,518	9,245,072.00	9,075,346	10,179,964.00	9,968,239	Delay rentals are expensed on the books and for tax purposes. The book and tax figures do not agree because the Bureau of Internal Revenue requires capitalization of some items that are considered expense for financial accounting purposes.

Humble Oil & Refining Co.—Information requested by the Honorable Charles A. Wolverton, chairman of the House Committee on Interstate and Foreign Commerce—for the years 1950, 1951, and 1952—Continued

Charges to expense for year	1950		1951		1952		Explanation
	Per books	For income-tax purposes	Per books	For income-tax purposes	Per books	For income-tax purposes	
5. Allowable depletion		$72,510,455		$89,123,222		$88,480,000	Allowable depletion is the aggregate of the depletion computed by individual leases by taking (*a*) 27½ percent of gross income, (*b*) 50 percent of net income, or (*c*) cost depletion, whichever is applicable in the case of each individual lease. The only financial significance of allowable depletion is its effect on taxes. The measure of its effect on taxes is the difference between book depletion and allowable depletion multiplied by the effective tax rate.
6. Total of above items	$81,909,827	169,576,309	$101,054,164	219,999,717	$127,854,663	244,596,000	The totals shown for book and for tax purposes are not in any way comparable. As set out above, low-cost reserves acquired many years ago must be replaced today at substantially increased costs, and charges for book depletion do not begin to measure the higher costs currently incurred in finding and developing new reserves. For example, Humble in its efforts to find and develop new reserves spent $121,210,411 in 1950, $167,533,950 in 1951, and $203,823,860 in 1952. Allowable depletion for tax purposes recognizes the added capital value that accrues from the development of reserves, and the tax provision is necessary to avoid taxing capital. That it has worked out fairly over the long range is shown by the fact that the average rate of return on investment of representative petroleum companies over a period of years has not exceeded that of corporations in other industries, such as corporations engaged in manufacturing and trade.

HUMBLE OIL & REFINING CO.,
Houston, Tex., July 14, 1953.

Hon. CHARLES A. WOLVERTON,
Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington, D. C.

DEAR MR. WOLVERTON: At the conclusion of your committee hearings on July 9, you asked that I submit for the record answers to the remaining questions which you had prepared. A review of the record indicates that you had asked and I had answered question No. 10. Accordingly there are set forth below my answers to questions Nos. 11 to 15:

Question No. 11: In other words, you raised higher-gravity crude oils more and considerably more than you did heavy crude because refiners would pay more for the higher-gravity crude?

Answer: Considering the yields of the several major products from a barrel of crude oil at gulf coast-east coast refineries and the prices in effect for the several major products, higher-gravity crude oils are worth more to refiners than lower-gravity heavier crude oils. With existing equipment, refineries can get more gasoline and heating oil from high-gravity crude than from low-gravity crude, and, therefore, can realize more revenue from products from high-gravity crude. In order to get the same yield of gasoline and heating oil from a low-gravity crude, a refiner would be required to increase his investment and costs. Thus, the lower-gravity crude is of less value to a refiner, and unless the crude prices are in line with the relative values to a refiner, he will selectively buy only those crude oils that are most attractive to him. When Humble announced its crude price increases on June 15, 1953, it recognized that developments in the technology of oil refining (which influenced the relative yields of products from different crude oils) coupled with changes in relative prices of refined products had brought about price inequalities in the several grades of crude oil produced. These were the reasons that prompted Humble to raise certain of the low-gravity crude-oil prices less than the higher-gravity crude-oil prices.

In the preface to this question a statement is made that there is a definite limitation to the quantities of fuel oil which customers would buy at higher prices where they can also use other forms of fuel, but that in the case of gasoline and home-heating oils this is not so. By way of comment on this statement, it should be noted that in the case of home-heating oils, as well as for residual fuel oil, there is the alternative opportunity to use natural gas, manufactured gas, or coal. In the case of gasoline the price has been so far below the cost of alternative liquid fuels that could be made from shale or coal that these alternative fuels have not become effective competition for gasoline. Instead, the price of gasoline has been held at lower levels by competition. Further, in order to obtain kerosene and heating oil from crude oil in an amount sufficient to meet increasing demands, certain quantities of gasoline must be produced, and provision of an outlet for this production has increased the competition among refineries for the available gasoline market. It may also be noted that gasoline foces competition with diesel fuel for trucks and buses and, to a lesser extent, with jet fuel in aviation. Even in the case of passenger cars, consumers have the choice of alternative means of transportation by bus and train for which alternative means of transportation there are other forms of fuel than gasoline. Thus, use of gasoline is only one means of providing transportation and the other means available do result in competition for gasoline.

Question No. 12: You raised the price because you felt the refiner would, or could pay it, and did not raise the price where you felt they could not or would not pay it?

Answer: Humble is a buyer and a seller of crude oil as well as a producer. It is in competition with other buyers and sellers of crude oil. As pointed out in my statement to the committee, Humble stands to lose customers or supplies to others if its interpretation of the market is not correct. It has been our experience that if the prices of crude oils are out of line with their values, refineries will concentrate their purchases on the most attractive grades and limit their purchases of the least attractive, so that shortages develop for the attractively priced crude oils and surpluses develop for the crude oils that are relatively overpriced. If continued, such developments result in depleting inventories of some grades while resulting in greater inventories than necessary or desirable for other grades. In order to avoid such unsatisfactory developments, it is necessary for the prices of crude oils to reflect their relative value to the refiner. This is fair not only to the refiner but also to the producer. We raised the price of crude oil on the average, 25 cents a barrel; but the increased prices

of the several grades varied in amounts from 10 cents to 35 cents a barrel to reflect what these various crude oils are worth to refineries on the basis of current yields and relative product prices.

Question No. 13: Can that be construed in any other way than that you raised prices as you felt "the market would stand?" Can such policy be taken in any other way than that the oil companies in June thought the people would pay more for gasoline and would buy just as much regardless of the increase and so they have raised prices?

Answer: The average increase in price took into account the fact that costs have increased generally for finding, developing, and producing crude oil as stated in the prepared statement presented to the committee. The differentials in price among crude oils are based not primarily on their costs but on their relative values to refineries. This situation does not differ from that of other industries in which producers with varying costs for the same product have to sell in competition with each other at the same price for an identical grade.

The price of crude oil was not determined on the basis of what maximum price Humble thought consumers would be willing to pay for gasoline. Gasoline is selling at less than the cost of alternative liquid fuels from shale and coal and far below the price that the market would stand. The retail gasoline price has shown a downward trend over a long period of years. In terms of the Consumers' Price Index with 1926 as a base, the retail price of gasoline, exclusive of tax, was 20.1 to 26.2 cents a gallon in 1920–25, 14.2 to 21.0 cents a gallon in 1926–45, and 13.3 to 15.1 cents a gallon in the postwar period, including an average price of 13.5 cents a gallon in 1952. There is also a downward trend in the retail price of gasoline in relation to wages of the average workingman. With average earnings in manufacturing industries of $1.673 per hour in 1952, wage earners were able to buy 10 gallons of regular gasoline, excluding tax, with the pay received for 1.21 hours of work. By comparison, in the year when gasoline was at its lowest price during the depression of 12.41 cents a gallon, excluding tax, in 1933, it required the earnings of 2.808 hours by the average wage earner in manufacturing to buy 10 gallons of gasoline; and back in 1926, it required the pay for 3.827 hours to buy 10 gallons of gasoline, excluding tax. This steady downward trend in the cost of gasoline relative to the earnings of wage earners is an indication that gasoline is not being priced at "all the market would stand."

Question No. 14: Is there any recourse for consumers with an inelastic demand such as this except a free market where sellers compete with one another? Have they any such market when all companies raise prices simultaneously by like amounts? Or when all companies exercise self-restraint to reduce the supply by retarding the rate of production or the amount of imports?

Answer: Consumers of gasoline do enjoy the benefits of a free market in which sellers compete with one another for the business. The quality of gasoline has improved and the price of gasoline has remained attractive as indicated by the steadily increasing use of gasoline and the increasing proportion of travel by personal car rather than public transportation. As noted previously in the reply to question No. 11, there is competition among various methods of transportation and fuels, so that consumers are not dependent solely upon gasoline used in private automobiles for transportation. But for the fact that gasoline is sold at such low prices, consumers would also have available supplies from alternative sources, such as shale and coal.

As an illustration of the real competition that exists in the gasoline market, it should be noted that changes in prices by competing companies are not always identical. In the price increase in June 1953 in Texas, Humble advanced its tank-wagon price for gasoline seven-tenths cent a gallon while other marketers initially increased their price by 1 cent a gallon. Later on some companies reduced their prices back to the competitive level announced by Humble, but after several weeks the tank-wagon price has not finally settled down to a uniform level for all major brands. Nor is there full uniformity in the prices at which consumers can buy at retail.

The action of companies in changing their supply of petroleum or of its products is a matter of their separate judgments and does not differ in that respect from the decision of manufacturers of the same appliances to reduce their output if they find that production is exceeding the requirements of their customers. In the case of the production of crude oil, the only difference is in State laws which provide for the regulation of output on the basis of maximum efficient rates and in some cases market demand as well in order to prevent

physical waste. In an oil field one producer cannot change his rate of production independently of the others without losing part of his oil to them or taking part of their oil from underneath their properties. It is this peculiarity of oil production as distinguished from other forms of production that has led to the State conservation laws in order to prevent physical waste and to achieve ratable production and equity among producers.

In my testimony I pointed out in detail that initial increases in prices of crude oil were not the same by all companies; that competition in the end established uniform prices in which the increases varied from 10 to 35 cents a barrel instead of the flat 25-cents-a-barrel increase posted by Phillips initially.

Question No. 15: Is this policy, a policy almost one of charging "what the market will bear," not further evinced by the very fact that in the area of fuel and heating oils there still seems to be confusion as to whether the increase will "stick"?

Answer: The fact that residual fuel oil is underselling coal and that the prices of other petroleum products are less than the costs from alternative sources of liquid fuel is evidence that competition is preventing prices from being set at the level of "what the market will bear." Seasonal forces may affect price changes of various products as well as the broader and more fundamental forces of supply, demand, and costs. In the summer the demand for gasoline is strong and the demand for heating oils by comparison relatively weak. In the winter the situation is reversed. The present situation with respect to heating oil prices is an indication not only of seasonal factors but also evidence of the independent judgment of the market by various competing companies.

Sincerely,

HINES H. BAKER.

(Whereupon, at 1:13 p. m., a recess was taken until Monday, July 13, 1953, at 10 a. m.)

PETROLEUM STUDY

(Gasoline and Oil Price Increases)

MONDAY, JULY 13, 1953

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D. C.

The committee met at 10 a. m., pursuant to recess, in room 1334, House Office Building, Hon. Charles A. Wolverton, chairman, presiding.

The CHAIRMAN. The committee will come to order, please.

Our first witness this morning will be Mr. H. G. Burks, Jr., executive vice president of the Esso Standard Oil Co. of New York City.

Mr. Eugene Holman, president of the Standard Oil Co. of New Jersey, was invited to attend the hearings to explain the products price increases put into effect on June 22, following the crude-oil price advance of June 15. Mr. Holman replied by designating Mr. Burks, marketing vice president of Esso Standard, a subsidiary covering the eastern seaboard. In acknowledging Mr. Burks' coming to Mr. Holman I replied that the chairman would assume that Mr. Burks also would be prepared to answer on Mr. Holman's behalf the 17 questions asked by the chairman on July 1.

Mr. Burks, you may take the stand.

STATEMENT OF H. G. BURKS, JR., EXECUTIVE VICE PRESIDENT OF ESSO STANDARD OIL CO. OF NEW JERSEY

Mr. BURKS. Mr. Chairman, I have a prepared statement I would like to present.

The CHAIRMAN. You may proceed.

Mr. BURKS. Esso Standard Oil Co. engages only in refining, distributing, and marketing petroleum products. We operate six refineries situated on the gulf and Atlantic seaboards. We market petroleum products in 18 States in the eastern and southeastern part of the United States and in the District of Columbia.

Esso Standard Oil Co. is not engaged in the retail service-station business, except for a few stations which are generally operated for training purposes. We have no crude-oil production. We purchase our entire crude supply for our refineries from affiliated and nonaffiliated crude-oil-producing companies and from many individual producers.

Esso Standard Oil Co. markets petroleum products in a densely populated area served by many other oil companies. It sells in an intensely competitive market.

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Your committee is examining the recent price increase in gasoline and crude oil. Esso Standard Oil Co. is not a producer of crude oil, and I do not propose to talk on that subject, except that I shall make some comment on our position as a buyer of crude.

Primarily, I would like to discuss our recent product price increases, particularly with respect to gasoline. These increases averaged about 1¼ cents per gallon, which to the average motorist would mean an increase in gasoline cost of around 73 cents per month, if the service-station dealer merely passed this cost on to his customer.

To begin with, our last previous general increases in gasoline prices occurred approximately 3 years ago, or on July 19, 1950, to be exact. I want to discuss what has happened between then and now, and show you the background and the very substantial reasons which we believe justified our recent gasoline and other product price increases.

During the years 1950 through 1952, we were faced with a steady decline in earnings. The decrease in annual earnings over this period amounts to $6,500,000, a decline of 11 percent compared with 1950. Our net return per dollar of sales had declined from 4 cents in 1950 to 3 cents in 1952. At the same time, our net investment in plant account increased during this period some $59 million, which is an increase of 18 percent.

During the period 1950 through 1952, we also experienced large increases in the cost of doing business. Our total wage and salary costs were $153 million during 1950 and were some $196 million during 1952. This represents an increase of 28 percent. Our rates of pay on June 1 of this year were nearly 20 percent higher than in 1950. Our tanker transportation cost for moving crude and products from the gulf to our east coast refineries and terminals is 15 percent higher per barrel now than in 1950. Refinery construction costs have increased 22 percent since 1950. This is not a complete list but it is indicative of the way in which costs have increased during this period.

I should be pointed out that after the war we embarked on an intensive campaign of cost reduction and efficiency improvement which accomplished much in the direction of improving yields, expanding volume and lowering overall costs. If it had not been for this effort, our earnings picture would have suffered still more, but it was not sufficient to offset the rising costs previously outlined.

After price controls were abolished in February 1953, we gave serious consideration to our situation. We concluded that we could not continue indefinitely to absorb these increased costs in the face of our declining profit, on the one hand, and the additional investments we were required to make, on the other. It appeared that if we were to maintain a sound financial picture—one which would enable us to continue to keep our plant modernized and expanded to the point where we could meet the demand for our products—we ought to try to increase the prices we get for our products, so that we could effect some improvement in our net return picture.

Obviously, the question of timing is an important one in considering whether conditions in the market are such as to permit an increase in price. Whatever the economic justification might be when considering only our own financial position, if conditions in the market for such a competitive product as gasoline did not confirm our judgment that higher prices were indicated, underselling by competitors would soon force us off the higher price level.

By early May 1953 gasoline prices had advanced in the primary markets in the United States gulf and our purchases in the market had indicated that good quality gasoline was in tight supply. On the other hand, many commodities on which prices had been raised had leveled off and production had caught up with demand in many lines, so that there seemed to be no inflationary trend. It was decided that the time had arrived when we could consider the gasoline price increases which we felt were clearly justified. Therefore, our price analysis group, in consultation with our local area managers, commenced preparation of recommendations to our management for price increases.

At this point and before we had made a final decision, one of our competitors announced increased prices for gasoline in New York and New England. The increases in gasoline prices so announced produced an average realization slightly below the realization we would have obtained from the increases we had in contemplation. Since we could not expect our customers to pay a price higher than the price at which they could purchase similar products from a substantial competitor, we announced, effective June 11, new prices for our gasoline in New York and New England which were generally in accord with those previously announced by this competitor.

On June 15, we increased our gasoline prices in the States of New Jersey, Pennsylvania, Delaware, Maryland, and Virginia and the District of Columbia. The amount of these increases varied to some extent, but all were initially calculated on the basis of taking the value of the product at the primary gulf market and adding to it transportation cost, terminaling, inland freight, bulk plant throughout, and other factors which we regularly use in determining the price we would like to charge at any given delivery point. The desired price would then have to be considered in the light of known competitive conditions, such as availability of lower-cost product to a competitor, and the like. These are merely some of the considerations which must be taken into account in deciding what price shall be asked for delivery of gasoline at a particular point, and the combined judgment of a number of our people who are responsible for the various aspects of our business is brought to bear on the question. In the last analysis, the price of a commodity, such as gasoline, in an active market is fixed by competition, since any seller can bring the price down by offering products of comparable quality and market acceptance at a lower price.

We had also projected increases in prices for the remaining States in which we operate, but before these could be made effective, the press reported that a major crude-oil purchaser and producer had announced a general increase of 25 cents per barrel for crude in the Texas/Mid-Continent area. By June 16, it was reported that other crude purchasers had posted higher prices for other areas, including States where our company purchases large quantities of crude which are required for the operation of our big refinery at Baton Rouge. In fact, the operation of our Baton Rouge refinery is dependent upon obtaining about 340,000 barrels per day of crude, which we purchase from approximately 13,000 operating and royalty interest owners. Of this quantity, about 272,000 barrels per day are purchased from sellers who are not affiliated with our company. Approximately 107,000 barrels per day are purchased on what are termed "division orders"

which are cancelable on 48 hours' notice or less. Past experience made it clear that we could not afford to jeopardize these crude supplies by refusing to meet the offering price of other crude purchasers. Therefore, on June 17, Esso announced an increase in the price it would pay for crude in Louisiana, Arkansas, and Mississippi ranging from 10 cents to 35 cents per barrel, depending upon the grade of crude involved.

It will be obvious that this crude-oil price increase introduced a new problem for us, coming as it did when we were in the process of seeking increased prices for our gasoline. We could not afford to absorb the additional cost to us of this crude, which we calculated would amount to an additional $72 million per year. We therefore felt that we would have to try for further product price adjustments to reflect the increased cost of the crude, even though this meant a second gasoline-price increase within a very short period of time in certain States. We also sought higher prices for other products, including fuel oil and diesel fuel, in order to avoid having any one product carry the whole burden of the higher cost of crude. The total amount of such product price increases was calculated to recover no more than the actual increase in our cost of crude oil.

I think it is worth pointing out that even at the new price levels gasoline prices have not risen unreasonably in comparison with many other commodities in common use. A published compilation of service-station prices for gasoline in 20 cities in the area where we market is estimated to stand at 157 calculated on the same base as the Bureau of Labor Statistics index of retail prices which as last reported stands at 190.1.

It is interesting to note that our increase in the prices of kerosene, domestic heating oil, and diesel fuel lasted exactly 10 days. On July 2 (a week ago last Thursday), after reviewing the competitive market situation, we reduced our prices for those products by amounts ranging from three-tenths of a cent to thirty-five hundredths of a cent.

I am happy to have had this opportunity of discussing this matter of prices with your committee since clearly there has been considerable misunderstanding of the mechanism of pricing in our industry. I would not want to leave any impression with you that prices in our business can be established by any set formula or arbitrary evaluation of cost factors alone. On the contrary, prices reflect a highly dynamic balance of economic pressures, some of which tend to push prices up, others of which tend to force them down. A correct evaluation of all of these factors at any one time is always difficult. At best any marketer can only establish his prices on a tentative basis and thereafter let the market itself decide whether his judgment has been sound.

Prices play a very important part, as I see it, in our economic system. Prices can be too low as well as too high, from the long-term consumer standpoint. The record of the petroleum industry is that prices have over the long term been reasonable as compared to any other important commodity. At the same time, they have made it possible for the industry to meet the rapidly mounting needs of customers with constantly better products and to build and maintain an important bulwark to our national defense.

Mr. Chairman, that concludes my prepared statement, but in view of the fact that there seems to be some misunderstanding of the normal seasonal operating trends in the petroleum industry, which

has resulted in considerable misinterpretation of current stock levels, production levels, and their relationship to product prices, I would like, with your permission, to view these factors in their perspective on the basis of some charts, four charts, which we have prepared. If that is in order, sir, I would like to go ahead with that.

The CHAIRMAN. You may proceed.

Mr. BURKS. The data on these charts are obtained from official Bureau of Mines monthly reports through the last published issue for April 1952, and they are brought up to date through June 27 with data published weekly by the API. The information presented covers total industry results for PAD districts 1 through 4, or the entire midcontinent, gulf coast, and eastern seaboard areas. It is the area of the United States east of the Rocky Mountains.

Because of the limited data available on shipments between these areas it is not possible to present similar charts for any smaller area with comparable accuracy. My own company operates in portions of each of districts 1, 2, and 3, and hence we feel that the data presented substantially represent the fluctuating supply and demand relationships which affect us and our competition as well.

(Chart No. 1 appears on the following page.)

Mr. BURKS. This first chart, as I have mentioned for districts 1 to 4, covers the total industry product demand. It is the demand on refineries and primary terminals. That may differ, would differ, from the demand by the consumers to the extent of fluctuations in secondary terminal stocks and in bulk plant stocks. Those variations are small over a yearly period, so these charts have adequate accuracy.

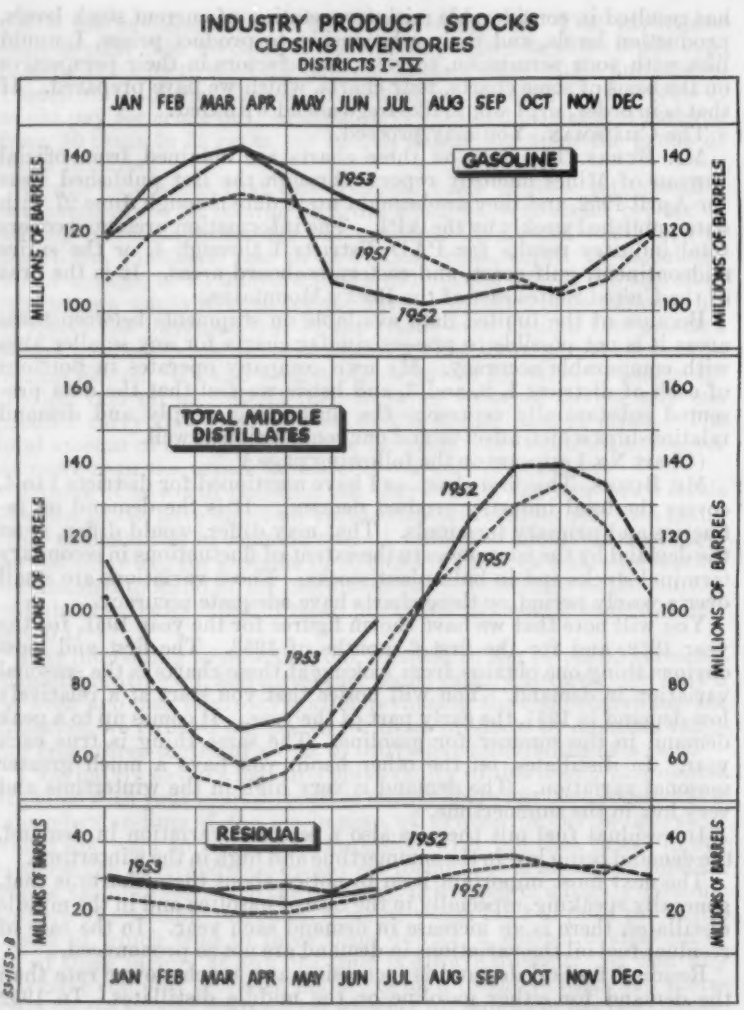
You will note that we have shown figures for the year 1951, for the year 1952, and for the first 6 months of 1953. The first and most obvious thing one obtains from looking at these charts is the seasonal variation in demand. You will notice that you start at a relatively low demand in 1951, the early part of the year. It comes up to a peak demand in the summer for gasoline. The same thing is true each year. In distillates, on the other hand, you have a much greater seasonal variation. The demand is very high in the wintertime and very low in the summertime.

In residual fuel oils there is also a seasonal variation in demand, the demand being low in the summertime and high in the wintertime.

The next most important item to notice about these charts is that, generally speaking, especially in the case of gasoline and in the middle distillates, there is an increase in demand each year. In the case of residual fuel oil the variations in demand are not so pronounced.

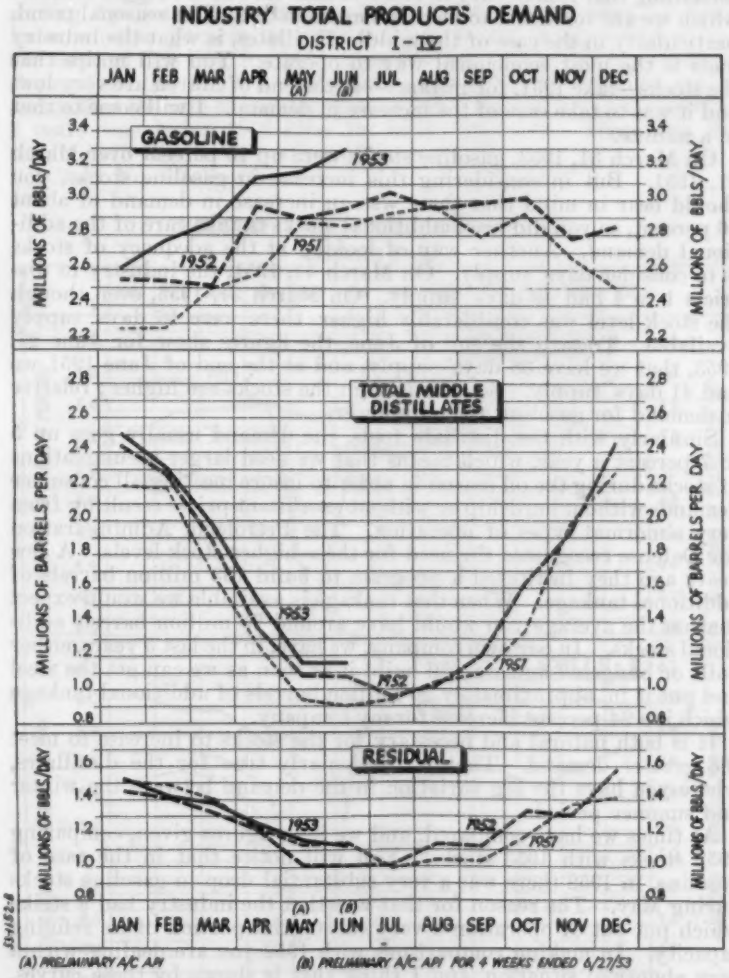
Residual fuel oil demand is increasing at a much slower rate than the demand for either gasoline or the middle distillates. In 1952 compared to 1951, the increase in gasoline demand was 6.2 percent, and in middle-distillates demand it was 8.4 percent. In residual fuel oil there was practically no change in demand. Since we are concerned with the first 6 months of the year at this time, I think it worthwhile to point out that for the first 6 months of 1952 there was an increase in gasoline demand over the same period in 1951 of 7 percent, and for the first 6 months of 1953, relative to the first 6 months of 1952, the increase in demand was 8.7 percent.

In the case of the middle distillates, the first 6 months of 1952 over the first 6 months of 1951 it was 10.6 percent, and the first 6 months of 1953 over the first 6 months of 1952 was 5 percent.



In the case of residual fuel oil the decrease in demand for the first 6 months of 1952 over the first 6 months of 1951 was 5.9 percent, and for the first 6 months of 1953 over the first 6 months of 1952 there was an increase of 6.1 percent. So over those 2 periods there was substantially no change in demand in 1953 relative to 1951 for residual fuels.

(Chart No. 2 follows:)



Mr. BURKS. My next chart presents total stocks. Again, you will note the seasonal trend. Gasoline stocks build up during the wintertime, they start about the 1st of November to build up, they build up to a peak, usually around the 1st of April. After that they are pulled down to take care of the big summer demand. The middle-distillate situation is just the reverse. Stocks are pulled down in the wintertime, beginning about the 1st of November, and continuing until the end of March or sometime just about the end of March, usually, and then they are built up during the summer period until around the 1st of November in order to take care of the winter demand.

You will note that each year we have higher stock levels. That is something that is necessary in order to take care of the bigger demand which we are fortunate to have in our industry. This seasonal trend, particularly in the case of the middle distillates, is what the industry finds is the most economical way to operate. You will notice that the stocks—take 1951, for instance—at the end of March are very low, and it was to take care of the increase in demand. I will come to that in a minute.

On March 31, 1953, gasoline stocks were up 10 percent over March 31, 1951. But in considering this increase in gasoline stocks, you should bear in mind that there was an increase in demand of about 16 percent, so you did need additional stocks to take care of the additional demand. Another way of looking at the adequacy of stocks is to consider days' supply. On March 31, 1951, the industry in districts 1 to 4 had 49 days' supply. On March 31, 1953, even though the stock level was considerably higher, there were 46 days' supply available. Toward the end of June, the figures show for June 27, 1953, that we have 38 days' supply, and at the end of June 1951 we had 41 days' supply. So even though the stocks are higher; relative to demand for gasoline, they are lower.

Similarly with the distillate fuels, the demand usually goes up 5 to 7 percent a year, which means that we need larger accumulations of stocks during the off season in order to insure meeting all consumer demands without hardship or without exorbitant prices resulting from very abnormal types of operation. The Petroleum Administration for Defense recognized the need for these higher stock levels. A few years ago they instituted a program to build 153 million barrels of additional tankage. When that tankage is available we would expect that on the average you would have around 75 million barrels additional stocks. In our own company, we have, in the last 5 years, either built or budgeted and we will build it as soon as we can get the steel and put it in, approximately 20 million barrels of additional tankage which is a 24-percent increase for my company.

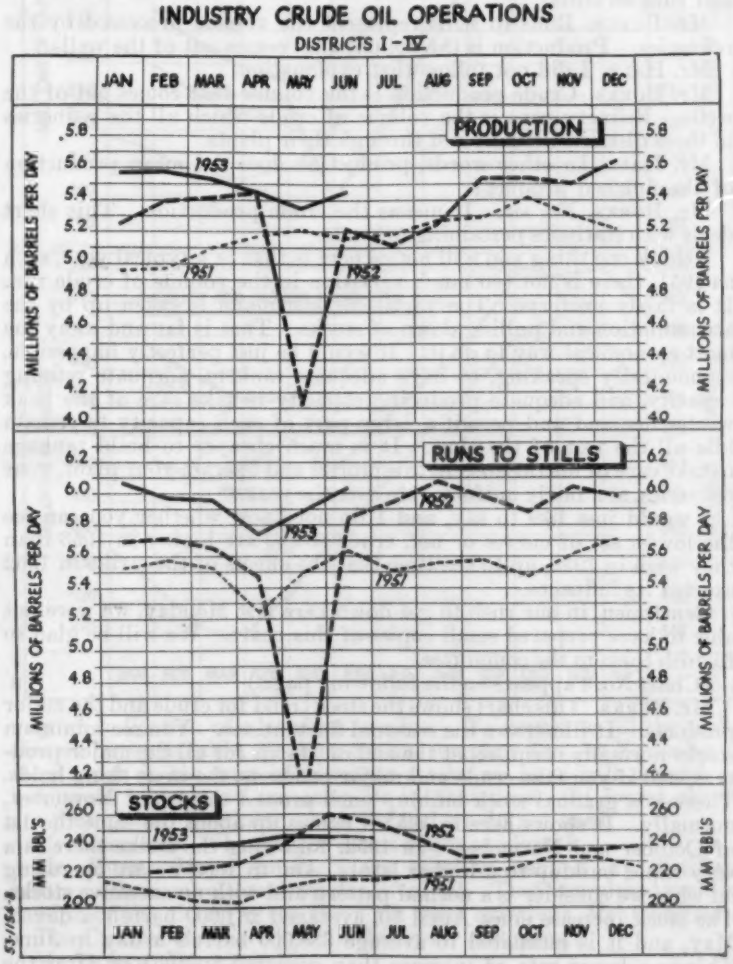
It is both natural and necessary for the stocks to increase to meet the greater demand. That is particularly true for the distillates, where you have the big variation in the demand between the winter and summer periods.

At times we have compared, and we hear figures given, comparing 1952 stocks with 1953 stocks. You will notice that in the case of gasoline, in 1952 there was a very substantial drop in gasoline stocks during May. The reason for that was that the industry had a strike which put out of operation a very substantial portion of its refining capacity. In making comparisons with 1952 you are dealing with a very abnormal situation, and I think that is shown by these curves. Note the sudden drop in gasoline stocks and then the industry is struggling along on practically minimum stocks during 1952 at the peak of the season.

As a matter of fact, you normally have minimum stocks of gasoline about the 1st of November, and you can see that in the very peak of the consuming season, July and August, we were below minimum desired stocks. So any comparison with the year 1952 is certainly most likely to lead to erroneous conclusions. The same thing is noticeable in our distillate stocks. You see, we did not build up stocks during

the month of May. They were practically level, whereas the normal thing for the industry to do is to start building up stocks, slightly during April and more rapidly beginning the 1st of May. I don't know whether you can detect it in looking at this curve or not, but the slope of this line, for 1953, from the end of April is less than the slope of the line in 1951, or than the slope of the line in 1952, which means that the rate of buildup in 1953 is less than it was in those other 2 years considering 1952 after the strike was over. That is on the total middle-distillates portion of chart No. 2.

(Chart No. 3 follows:)



Mr. BURKS. This chart shows the industry crude oil and the refinery operations. It shows the production, the runs to stills and the crude-oil stocks. It is important and immediately clear that 1953 production is higher. The runs are higher and the stocks start out higher. While I am talking about these stocks, the stocks of crude built up very rapidly starting in May 1952. During May, due to the strike, the refineries could not pull the stocks down, so even though there was a substantial drop in production here from April to May, the crude stocks built up because the crude was not being processed.

Mr. HESELTON. Will you explain the difference between production and runs to stills?

Mr. BURKS. Runs to stills represent the volume processed by the refineries. Production is the volume that comes out of the wells.

Mr. HALE. I did not follow that explanation.

Mr. BURKS. Crude production is the volume that comes out of the wells. Refinery runs is the volume of crude which all the refineries in these districts actually put through their plants.

Mr. HALE. In other words, production does not mean production of the finished product?

Mr. BURKS. No, sir. It means the crude production. This chart deals with statistics pertaining to crude.

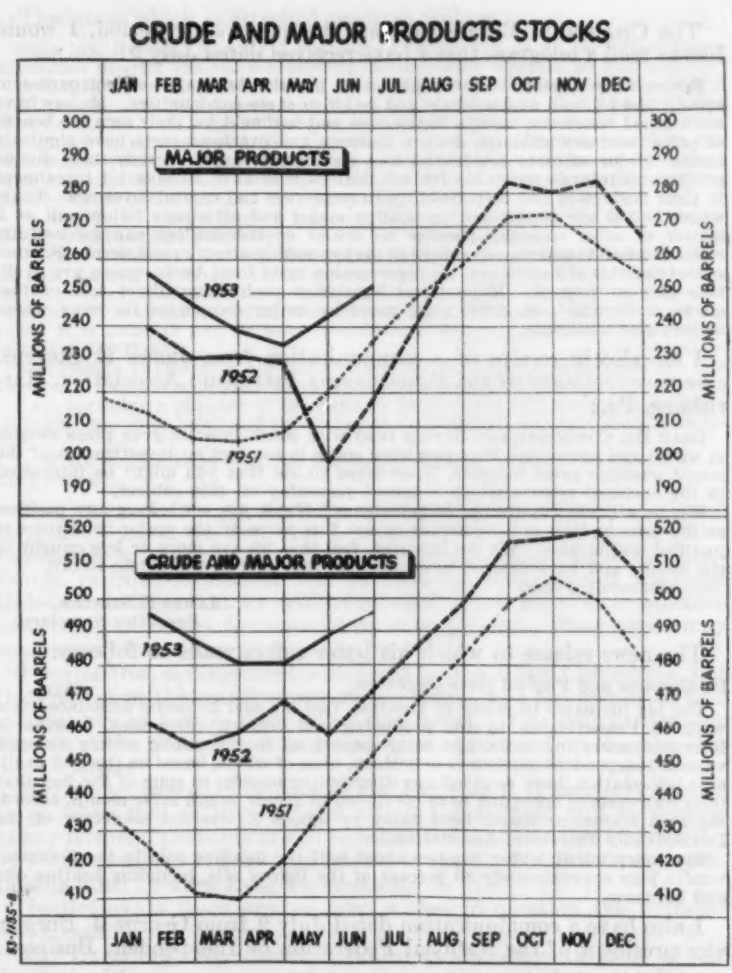
I think one thing you will notice here is that in a typical year, such as 1951, there is not too much variation in the volume of crude run. It is fairly uniform. The variation in demand is taken up by the accumulation and pulling down of stocks. That is far and away the most economical way to do it. It would be just perfectly impossible, economically speaking, to have adequate tankers, adequate refining capacity, and adequate producing capacity to take care of the peak winter demand and permit a large part of such capacity to remain idle all the rest of the time. It is much cheaper to build tankage to take care of fluctuations in inventories and operate your plant, your refineries, at a fairly uniform rate over the year.

I would just like to say, and I do not know whether you can see the lowest set of curves or not, crude stocks are higher in 1953 than they were in 1952, up to the time that the effects of the strike in 1952 exerted its influence.

Gentlemen, in our rush to get down here last Monday, we were not able to have prepared small copies of this chart. We will be glad to furnish them to the committee.

(Chart No. 4 appears on the following page.)

Mr. BURKS. This chart shows the stock trend for crude and the major products. It illustrates the seasonal fluctuations. You see minimum stocks normally occur about the end of March for all the major products, and if you take crude and major products, the same thing holds. There is a gradual stock buildup until around the 1st of November, normally. It shows here in 1951 it comes up about the same the 1st of October and November. In 1952, following the strike there is a very rapid buildup to a higher level. And in 1953 we are operating on what we consider is a normal pattern and with no excessive stocks. The stock increase since April 30, averaged 281,000 barrels a day in May, and it is estimated to average 338,000 barrels a day in June. This is a lower rate of increase than occurred in 1951 or after the strike in 1952. This is a perfectly normal buildup and is not in any-


CRUDE AND MAJOR PRODUCTS STOCKS
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MILLIONS OF BARRELS
520 510 500 490 480 470 460 450 440 430 420 410
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way an indication of a product surplus. We expect to fill the tanks that we have available, speaking for my company now, by November 1. How much in the way of distillate stocks we have will depend on how much tankage we can complete by that time. Of course, we do not plan to build tankage which we feel we do not need.

Mr. HESELTON. What do you list as major products?

Mr. BURKS. Major products are gasoline, refined oil, distillate heating oil, diesel oil, and residual fuel oil. That completes my discussion of the charts unless there are some questions, Mr. Chairman.

The CHAIRMAN. Have you finished your statement?

Mr. BURKS. Yes, sir.

The CHAIRMAN. Before we start the questioning period, I would like to read a telegram that I have received dated July 9:

Respectfully urge your investigation of practice by major oil companies of selling fuel oil both at wholesale and retail in same communities. Majors have maintained restrictive margin for dealers and withheld for their own use benefit of price increases although dealers delivery and overhead costs have similarly risen. Major sales to residential and commercial users accrues them double profits and injures reputable fuel-oil dealers who have substantial investment in their businesses and responsibility to employees and capital investors. Tankwagon prices are established by leading major and all others follow suit as a matter of sales necessity because no dealer or independent can successfully resist the double-margin advantage of majors selling direct to end users. Factual records of this situation and its repercussion upon local businessmen are available at your request. Recommend legislation prohibiting direct sale of fuel oil to residential and commercial users by major companies in areas where majors also wholesale.

I am also in receipt of a communication from James E. Stevens, executive secretary of the Pennsylvania Petroleum Association, Harrisburg, Pa.:

DEAR MR. CONGRESSMAN: Having read with much interest your press release in which you announced that you were going to conduct an investigation of the recent gasoline price increase, it occurred to me that you might be interested in the enclosed release which I issued yesterday on this subject.

We, as a trade association of petroleum jobbers, are not taking any position at the present time as to whether or not this move by the major companies is justified and is wise. We do, however, feel that we are more or less caught in the middle and have desired to established that fact in the public record.

Sincerely yours,

JAMES E. STEVENS,
Executive Secretary.

The news release to which his letter refers reads as follows:

Re Gasoline and Fuel-oil price increases.

The big increases in prices of gasoline, fuel oil, and kerosene announced this week in Pennsylvania by the producing and refining companies, because of increased operating costs, are being passed on to the public mainly through various independent marketers or jobbers, none of whom, based on the best available information, have received any distributing benefits in spite of the fact that their own costs of operation have continued to mount month after month, according to a statement issued here today by James E. Stevens, secretary of the Pennsylvania Petroleum Association.

The independent jobber handles about half the gasoline sold in the Commonwealth plus approximately 80 percent of the lighter oils, including heating oils and kerosene.

I also have a communication dated July 2 from George J. Burger, vice president of the National Federation of Independent Business:

HON. CHARLES A. WOLVERTON,
Chairman, Interstate and Foreign Commerce,
House Office Building, Washington, D. C.

MY DEAR CONGRESSMAN: As your Committee on Interstate and Foreign Commerce is now holding hearings on the increased prices announced in the petroleum field, I believe it would be of considerable importance for your committee to note the report we received from a responsible, independent business concern, a federation district chairman in the South. I believe the contents of this letter might be included in the record of the hearings and further that the committee may give some consideration in exploring this wretched situation.

I also know that the record will show that the Senate Small Business Committee, under the chairmanship of the late Senator Wherry, held extensive hearings on a similar squeeze play that was taking place in the metropolitan Chicago area.

It is our hope that the committee will explore this reported situation.

Sincerely yours,

GEORGE J. BURGER,
Vice President.

The letter which is attached reads as follows:

DEAR MR. BURGER: Exactly 1 year ago I wrote you as an oil jobber and a federation district chairman regarding dealer-jobber margins on fuel oil.

In a little more than 30 days fuel oil has been hit with two increases May 8 and June 23. On May 8 we were advised that tank wagon would be 0.007 and tank car 0.0055. On June 23 we were advised that tank car would be up 0.006 per gallon on kerosene and No. 2 grade oils, with no change indicated in the tank-wagon price. We checked every major in the area and found the posted tank-wagon price on both fuels up 0.013 from May 7. Out of this increase the jobber retains 0.0015 or what the "little doggy got."

On May 26 we were offered a 1 percent discount 10 days on No. 2 fuel, something we had not had heretofore.

My figures indicate that we must get up $13,000 more on each million gallons. Of this amount we retain $1,500 as our margin. Every well-informed source in the country indicates that consumer credit is much tighter. This indicates to us and it is already showing that accounts receivable are falling at a steady rate. It is going to cost us more to collect, probably the salary of a collector or two at $2,500 each.

The jobbers in this area and surrounding North Carolina cities can't see this 10-percent increase at a time when storage is bursting to capacity.

I am enclosing a clipping of the June 24 issue of the Greensboro Daily News regarding the price boost and the action of the National Oil Marketers Association.

It is my sincere hope that the federation can stimulate action favorable to the jobbers.

Gentlemen, before we start the questioning, I would like to bring to your attention the fact that I have received notice that the Rules Committee will hear us at 10:30 on a rule with reference to the dual-benefit railroad-retirement bill. I have an arrangement with the Rules Committee that we will be advised a few minutes in advance of it being necessary for some of us to be present. That notice may come at any minute.

I regret that arrangement was made by the Rules Committee, but they represent the management of the House, and the rest of us find it necessary to bow to them when they move. You will pardon our absence at the time when it is necessary to appear before them on this other matter.

Mr. Burks, probably in view of the fact that it is necessary for me to go when that call comes, and which I anticipate will be coming at any moment, probably it will be better for us to do some questioning by other members rather than for me to start. I will hold my questioning until I return from the meeting.

Gentlemen, is there anyone who wishes to question the witness? Mr. Heselton.

Mr. HESELTON. Mr. Burks, I notice in the June 12 issue of the Journal of Commerce, several very interesting articles. (1) Unseasonal Gas Cut Brings Stocks of Gasoline to 22 Percent Above 1952. (2) Distillate Stocks Soar About 53 Percent. (3) Heavy Oil Stocks Up at Gulf Offset Dip at East Coast. (4) Venezuela Oil Flow Rises in Month. And (5) World Crude Oil Output Hits Record for Fourth Month in a Row.

They make it rather difficult to understand the logic or the economics of price rises in view of those stock positions, even in spite of the testimony you have presented here this morning. Is it not true, in general, that the stock position was one factor that should have been taken into consideration in determining the timing of these increases?

Mr. BURKS. Yes, sir; inventories are one of the first factors we take a look at.

Mr. HESELTON. Then how could you justify an increase in distillates with stocks up 63 percent over a year ago?

Mr. BURKS. Well, sir, as I pointed out, in connection with the charts, which I described, we do not consider that the day's supply at this time of the year means a great deal or that the stock position, when it seems to be proceeding normally upward, as it has to proceed on the basis of the industry's operation, is any deterrent to a price change if there has been a substantial increase in cost to the refiners. The only reason that distillate prices went up, Mr. Heselton, was because there was a very substantial increase in the cost of the refiners' raw material. The refiner has to endeavor to get that back. Our company being a refining and marketing company, it is just something that we think is rather axiomatic from a standpoint of economics. If we have something which increases our cost to the extent of $72 million a year, we must endeavor to recover that cost if at all possible.

Mr. HESELTON. When was it that you announced the increase in the distillates?

Mr. BURKS. As I remember it, sir, it was effective June 22.

Mr. HESELTON. And that was six-tenths of a cent?

Mr. BURKS. Six-tenths of a cent; yes, sir.

Mr. HESELTON. Now, on July 1, it was announced, was it not, that there was an agreement with reference to the New England natural-gas situation.

Mr. BURKS. I do not remember the exact date, but I remember that the two companies that desired to sell gas in that area had reached some kind of an agreement, yes, sir, so that they would both be up there.

Mr. HESELTON. I have here a release from the Federal Power Commission stating the proposed settlement on file with the FPC July 1 by the principal parties to the proceedings, and then they list the group. Those gas companies serve the same area that your company serves, do they not?

Mr. BURKS. In part, certainly. We market throughout New England.

Mr. HESELTON. You are a heavy distributor, are you not, in New England?

Mr. BURKS. Yes, sir; we sell substantial quantities of heating oil in New England.

Mr. HESELTON. And then your company announced a reduction in that increase, did it not?

Mr. BURKS. Yes, sir.

Mr. HESELTON. What date was that?

Mr. BURKS. July 2.

Mr. HESELTON. The day after the announcement of the settlement in the gas case?

Mr. BURKS. Certainly that gas competition did not influence us at all in connection with that, Mr. Heselton. It was competition with others selling heating oil.

Mr. HESELTON. The American Gas Association announced, shortly before July 1, that the gas industry figures it is serving 11,728.000 residential heating customers, equivalent to 48 percent of all residen-

tial customers. A year ago it was figured at 47.7 percent. Would not that sort of a situation influence a competitive heating-oil company?

Mr. BURKS. Yes, sir. We have to meet competition from natural gas, coal, and other companies selling heating fuel.

Mr. HESELTON. And yet you say it was not in your mind at all?

Mr. BURKS. No, sir.

Mr. HESELTON. What was in your mind?

Mr. BURKS. The fact that other oil companies were selling heating oil at a lower price than we were.

Mr. HESELTON. In other words, other oil companies declined to follow the increases set, is that right?

Mr. BURKS. Yes, sir; they established their own prices in view of their interpretation of what the market was.

Mr. HESELTON. When you announced the increase in heating oil, I assume you estimated what the additional profit would be on an annual basis?

Mr. BURKS. When we increased our price of heating oil, it was at the same time that we made other price adjustments to compensate, in part, not in entirety, for the increase in the cost of crude to us.

Mr. HESELTON. Well, that is not quite an answer to my question. My question was I assume you have estimated the additional profit that would accrue by reason of the additional price increase on an annual basis?

Mr. BURKS. We estimated the additional increase in realization which would be associated with the increase in heating oil price, yes, sir; and other distillate prices.

Mr. HESELTON. How much was in the case of the distillates?

Mr. BURKS. I have that figure but not for just heating oil. I have it for total distillates. It is about $24 million a year at that rate. The increase of six-tenths of a cent was equivalent to about that. When we cut back, along the east coast and lower, we figure that reduced our realization a little over $11 million. We make sales along the coast, too.

Mr. HESELTON. In making that answer of $24 million and then giving the reduced figure, were you confining yourself to the distillate alone or the gross products?

Mr. BURKS. That was just the middle distillates, sir.

Mr. HESELTON. All right. Now will you give the figure for gasoline?

Mr. BURKS. For gasoline, $32,600,000.

Mr. HESELTON. You have other figures in addition?

Mr. BURKS. I have other gasoline, aviation gasoline, and some solvents, too.

Mr. HESELTON. And can you give us those?

Mr. BURKS. The total for aviation gasoline and solvents was $7.1 million.

Mr. HESELTON. And what is the grand total?

Mr. BURKS. Well, I have not covered residual fuel oil yet.

Mr HESELTON. Will you do that?

Mr. BURKS. $6.6 million. In addition to that, we would have some other minor adjustments due to escalator clauses we have, amounting to $600,000 and the total is——

Mr. HESELTON. $600,000 up or down?

Mr. BURKS. Up. We have contracts, with the price of the product we are selling varying with the price of crude. So the total increase in product prices on June 22, prior to any reduction on July 2, was $70,900,000.

Mr. HESELTON. Have you attempted to make any estimate of the added cost to the consumer over the entire industry?

Mr. BURKS. No, sir; not particularly. You can do it roughly. If I figure the production as somewhere around 6,400,000 barrels a day, 25 cents a barrel on the average would be about $1,600,00 a day, which would be something in the order of magnitude of a half billion dollars a year.

Mr. HESELTON. A half billion a year?

Mr. BURKS. That figure, Mr. Heselton, in my thinking, should be considered along with total consumer expenditures, which in the second quarter of this year were $228 billion. So, by itself, it looks like a big figure, but against the total background of consumer expenditures, it is not such an enormous figure.

Mr. HESELTON. Of course you can take that in any given instance, so far as consumer expenditures are concerned, and isolate it and say it does not amount to much. But if the pattern holds, there is not any question in the world, is there, but what there is an inflationary impact?

Mr. BURKS. Sir, almost any price increase has an inflationary effect. But we looked at how the Consumers' Price Index was fluctuating and it seemed to us that it had been quite constant over the last year. There were minor variations, but they did not amount to very much. May I say just one other thing, that when costs are increasing to any company, it cannot indefinitely absorb these costs. In order to carry out its own function, it needs profits and increasing costs cut down profits, so that it is financially not in a position to soundly expand as the consumer demand goes up.

Mr. HESELTON. Well, the increase in costs certainly started back several years ago. Isn't that true?

Mr. BURKS. Yes, sir.

Mr. HESELTON. And you have been successful in absorbing them during that period of time and yet maintaining a sound financial position; have you not?

Mr. BURKS. No, sir. We have had some very lean years. We have had to spend more money for our plant equipment than we had available after paying relatively not large dividends to our stockholders.

Mr. HESELTON. When you say you spent more money for plant equipment, that has substantially increased your total assets; has it not?

Mr. BURKS. Yes, sir.

Mr. HESELTON. When I speak of Standard of New Jersey, you are a subsidiary of that company; are you not?

Mr. BURKS. Yes, sir. I am not talking for Standard Oil Co. of New Jersey, I am just talking for Esso Standard Oil Co.

Mr. HESELTON. Yes. But that is the only figure I have available, so I assume they are somewhat the same. Your total assets for 1951, or Standard Oil of New Jersey, was $4,770,018,865, and in 1952 that had been increased to $5,049,282,673, which is a rather favorable picture; is it not?

Mr. BURKS. Sir, I wish our picture were as good as the picture of our parent, but it is not.

Mr. HESELTON. You wish what?

Mr. BURKS. I wish our financial picture were as good as the financial picture of our parent, but it is not. You see, Standard Oil Co. of New Jersey operates all over the world, and we confine our operations to the section of the United States which I have described.

Mr. HESELTON. What were your first quarter earnings for 1953?

Mr. BURKS. As I remember the figure, sir, about $12.6 million.

Mr. HESELTON. What were they in 1952?

Mr. BURKS. For the first quarter I don't have the figures in mind. I know what they were for the year of 1952. They were $50,400,000.

Mr. HESELTON. Then I want to have a comparable figure. You do not have it?

Mr. BURKS. No, sir; I do not have that breakdown by quarters with me.

Mr. HESELTON. I have a figure here for 20 of the major companies, including Standard Oil of New Jersey. Some few show a substantial drop, others show very satisfactory gains, and then there is a middle ground. But the first quarter for 1952, for those 20 companies, was $492,530,112. For 1953, it was $481,344,854, or a reduction of 2.3 percent.

Having in mind the substantial increase in assets, substantial capital expenditures, and they in those two quarters are in this order, the capital expenditures, $2,290,848, and for the first quarter of this year $2,807,778, more than half a billion dollars, doesn't it strike you that there may be some criticism of these increases as to timing which have some validity?

Mr. BURKS. No, sir, I don't think so. What prices you have to charge, as Mr. Baker pointed out, in the long range, are determined by what your costs are. In our company this year as well as last year, we are going to have to borrow in order to finance our capital expenditure program. We think that the price increases are long overdue, that it is very sound for us to increase our earnings so that we are able to take care of consumer demand.

Mr. HESELTON. Some people might think that one answer to the problems confronting you would be an increase in production all along the line. That has sometimes been held in the history of this country as a very desirable means of meeting additional costs rather than passing it on to the consumers. Do you share that philosophy or not?

Mr. BURKS. I don't quite understand that, Mr. Heselton.

Mr. HESELTON. The history of this country has shown in many instances that those in charge of industry have preferred to place their emphasis on trying to meet increased costs upon increased production. Do you share that idea?

Mr. BURKS. Well, sir, certainly as production goes up through a given plant, your costs tend to come down. Certainly on a long-range basis we endeavor to supply the public with the best products we know how to make at reasonable prices. When we are supplying the public, the demand of the public, for products, I don't see how we can increase production very well without just building up surpluses, which would seem undesirable.

Mr. HESELTON. Having that in mind, I want to read a short paragraph or two from the Oil and Gas Journal of June 29. It is from Pittsburgh:

> Pittsburgh: Refinery runs currently are 400,000 barrels daily too high and imports are too high, and both must be cut to insure stability in the oil industry next year. Addressing the 30th annual meeting of the Pennsylvania Crude Oil Association here June 18, Earnest O. Thompson, chairman of the Texas Railroad Commission, said it is unfortunate that importers "are indicating an intention to reduce imports into this country." Cuts in the rate of refinery operations now, Thompson said, could mean that refiners "can be back to present rates—in the fourth quarter of this year." "Next year," he said, "oil stability can be well assured by reducing imports now and refinery runs now rather than later."

Will you comment on that?

Mr. BURKS. Well, sir, I don't think that the amount of imports at the present time, the variations that have occurred, would have any effect on prices at all.

Mr. HESELTON. How about refinery runs?

Mr. BURKS. If the statement that was made there, that refinery runs are making 400,000 barrels a day more than is needed at the present time, I would think that that 400,000 barrels a day is probably going into inventory to take care of middle distillate requirements during the coming winter. It is a perfectly normal procedure for the industry to be running more than current demand in the summertime. We do it. The whole industry does it. It is their method of operation, because it is the most economical way to take care of the middle distillate seasonal load.

Mr. HESELTON. Finally, I received a letter from a gentleman who lives in Carlsbad, Calif., which I take it is near the Mexican border. He tells me that the oil companies there were retailing gas at 33.6 cents a gallon for ethyl gas. He adds that yesterday, July 7—

> I was in the Tijuana, Mexico, area and bought ethyl gas from the Standard Oil Co. for 23 cents a gallon. Most everyone who lives near the Mexican border go there for their gas, and I note out-of-State cars filling up with gas. The question is how can they buy gas in Mexico so cheaply when this gas has to be transported from California. Just adding 8 cents to the 23 cents which makes the retail price 31 cents in comparison to the 33.6 cents charged in California.

Do you know of any reason why that should be true?

Mr. BURKS. Mr. Heselton, I don't know any of the facts or background pertaining to gasoline prices in either Mexico or California, and I don't feel qualified to answer that question.

Mr. HESELTON. This led me to wonder what the situation with reference to Canada is. Do you know?

Mr. BURKS. That I don't know, sir. We do not market in Canada.

Mr. HESELTON. But I thought you might know.

Mr. BURKS. No, sir; I don't know that price structure.

Mr. PELLY. Would not the State tax have a very definite bearing, the California State tax, as against Mexico?

Mr. BURKS. Mr. Pelly, I thought of that, but I don't know what the tax situation is in Mexico. So being ignorant of it, I just did not——

Mr. HESELTON. He said the State tax is 6 cents. Federal tax 2 cents there, and that was figured into his amount. Well, if you do not know, I do not think I care to pursue it further.

Mr. HALE (presiding). Mr. Pelly.

Mr. PELLY. Mr. Burks, if I understand the picture as far as your company is concerned, your profits last year were something around $50 million.

Mr. BURKS. $50.4; yes, sir.

Mr. PELLY. And not being a producer, your costs on account of this 25-cents-a-barrel increase have gone up 72 million.

Mr. BURKS. Yes, sir.

Mr. PELLY. It seems to me very unreasonable that you should be expected to absorb increased costs of $72 million and not pass them on.

Mr. BURKS. Well, that was the way we felt about it, Mr. Pelly. We felt that we simply could not afford to absorb any such increase in costs.

Mr. PELLY. Your increase in the end products were only $70 million, according to your original estimate, and then you had to cut.

Mr. BURKS. Yes, sir; that is correct.

Mr. PELLY. Therefore, you were not recovering your entire increased cost of crude.

Mr. BURKS. We are behind approximately $12 million at the present time as a result of the crude price changes and the product price changes made to offset the increase in crude costs to us.

Mr. PELLY. Well, that seems very reasonable to me, but the point I would like to understand a little more about is the matter that was brought up in the correspondence which our chairman read into the record, namely the squeezing of the independent operator. As I understand it, you sell at retail in some instances.

Mr. BURKS. In gasoline——

Mr. PELLY. That is, in competition to the jobber that you sell to.

Mr. BURKS. Are you talking gasoline now or heating oil?

Mr. PELLY. Heating oil.

Mr. BURKS. Yes, sir; we do.

Mr. PELLY. And they are the ones who are complaining because you have set retail prices at a price which your jobbers cannot meet and at the same time get a sufficient profit.

Mr. BURKS. That was a surprise to us, sir, about the jobbers of heating oil. Their margin is the difference between our price to them and the price at which they sell. When they are selling in the same area that we are, their selling price is normally whatever is our delivery price to the consumer. It has been changed over the years and I personally was not aware of any complaint on the part of the jobbers selling distillates.

Mr. PELLY. It is inconceivable to me that if your jobbers are being hurt that they are not immediately letting you know about it.

Mr. BURKS. I have asked about that and there have been changes made over the years in that situation which, as far as I know, have been reasonably satisfactory.

Mr. PELLY. Well, there seems to be very definite evidence from that correspondence which was put into the record that the jobbers are very unhappy about the price you are setting to the consumer and the price you are setting to the jobber. You are not giving them enough margin.

Mr. BURKS. I don't recall from what area that letter of complaint came.

Mr. PELLY. One was from Harrisburg and one was from some place in Pennsylvania, I think.

Mr. BURKS. Well, sir, I can tell you this: As far as heating oils are concerned, taking 7 areas—Linden, N. J.; Baltimore, Md.; Philadelphia; Norfolk; Richmond; Wilmington; and Charleston—I don't happen to have any Pennsylvania cities there—as of June 30, 1946, the arithmetic average of the difference which was available to the jobbers on heating oils was 2.18 cents. Today it is 3.21 cents. As far as I know, as I have said, I do not know of any dissatisfaction that is substantial. I mean everybody wants more money, but I don't know of any substantial dissatisfaction with the amount of money which the jobber has to carry on his business.

Mr. HESELTON. Will the gentleman yield?

Mr. PELLY. Yes.

Mr. HESELTON. I have the July 1 edition of the National Petroleum News, in which the general counsel of the National Oil Jobbers is quoted as follows:

> Judging from comments received so far, the jobbers in the field are raving mad.

That is rather a point in comment.

Mr. BURKS. I thought we were talking about heating-oil jobbers, and I specifically asked one of our marketing executives as to whether or not we did have complaints from our heating-oil jobbers, and his reply was that to the best of his knowledge there was nothing serious in the way of a complaint or general complaint concerning the margin available to such jobbers.

Mr. PELLY. Well, Mr. Burks, as far as I can see, or as far as this committee is concerned, there certainly cannot be any criticism of your company for not even passing on your actual increased costs of purchasing oil, and it looks to me like you are going to make less money, considerably, than you were before.

Mr. BURKS. As far as this crude price increase and the product price changes that have been made subsequent to that time, that is an absolute fact, Mr. Pelly, and we are not by any means satisfied with that as I think you could readily understand.

Mr. PELLY. I would think, Mr. Chairman, that our investigation should be more concerned with the producer who originally started this price increase and not a company such as Mr. Burks' company who is not passing along their actual increased costs. Maybe we should talk more with their parent concern who is a producer of crude oil. That is all.

Mr. HESELTON. Would you yield for a moment?

Mr. PELLY. Yes.

Mr. HESELTON. I forgot to ask you, Mr. Burks, but I think you said in your statement somewhere you followed a competitor in your posted increase. As I recall it, that was Socony-Vacuum.

Mr. BURKS. The first gasoline price increase; yes, sir.

Mr. HESELTON. And I gathered from what you said in your statement that you had had in mind a higher increase than the one that Socony-Vacuum announced, but you only went along with that.

Mr. BURKS. That is correct, sir. It was a higher increase on the average; in other words, had we put into effect the price increases city by city that we were contemplating.

Mr. HESELTON. What was the amount that you did have in mind?

Mr. BURKS. It varied, sir, from city to city, and I don't recall the exact effect of that. I know that Soconoy's ideas were somewhat lower in toto than ours.

Mr. HESELTON. Lower?

Mr. BURKS. Their price increases were lower.

Mr. HESELTON. You mean Socony's announced increase was lower than what you had in mind?

Mr. BURKS. Yes, sir; that is right.

Mr. HESELTON. And you cannot give us the amount?

Mr. BURKS. I cannot give you the exact figure. I never did see that exact figure.

Mr. HESELTON. Is my memory correct that at least here in the District you announced 2 increases in a period of 1 week?

Mr. BURKS. One of them was on June 15, and the other was on June 22, a week apart. In the meantime, we had the crude price increase on June 15.

Mr. HESELTON. That is, you announced one before knowing of crude-price increase, and the second one after knowing about it?

Mr. BURKS. Yes, sir.

Mr. HESELTON. Well, it seems to me there was some considerable speculation in the trade papers prior to the crude-price increase that an increase was on its way or an increase was justified or something like that.

Mr. BURKS. There were many opinions expressed in the trade press; yes, sir.

Mr. HESELTON. Is it not fair to assume that when you made your first increase, you must have had in mind some possibility of the crude-price increase?

Mr. BURKS. We thought it would occur at some time, sir, but as to the timing I certainly did not anticipate it as soon as it did occur.

Mr. HESELTON. That is all, Mr. Chairman.

Mr. CARLYLE. Mr. Chairman.

Mr. HALE. Mr. Carlyle.

Mr. CARLYLE. Mr. Burks, your statement contains this sentence:

Esso Standard Oil Co. is not engaged in retail service stations except for a few stations which are generally operated for training purposes.

I thought Esso Standard Oil Co., purchased locations in certain important areas or communities for the purpose of having direct retail service stations.

Mr. BURKS. Yes, sir; we do own a number of service-station sites. Those stations with few exceptions are leased to independent dealers.

Mr. CARLYLE. Well, you furnish the design for the general construction of those stations; do you not?

Mr. BURKS. Sometimes we build them.

Mr. CARLYLE. And those stations where you purchase land, you then furnish the money for the building of the station; do you not? Do you also select the operator of the station?

Mr. BURKS. Yes, sir. We have to know with whom we are dealing.

Mr. CARLYLE. That is right. Well, you always sell to that operator the products that he is allowed to sell?

Mr. BURKS. That he wants to buy.

Mr. CARLYLE. You come very close to being engaged in the retail service station business; do you not?

Mr. BURKS. We don't think so; no, sir.

Mr. CARLYLE. You say that you build the stations quite often, and that you furnish the design, and in other cases where you do not build

the station, you say you select the operator, and then you sell him the products that he is to sell. In such transaction, what is the difference between what you are actually doing and the operation of the retail service station?

Mr. BURKS. Well, this main difference, sir, that he buys what he wants to buy from us and then he sets his own price on it and sells it and endeavors to make money.

Mr. CARLYLE. Do I understand you to say that you do not operate any retail service stations at all?

Mr. BURKS. No, sir.

Mr. CARLYLE. Except just to train operators?

Mr. BURKS. Well, let me be specific. As of the end of the year, Esso Standard had a total number of about 24,600 service-station outlets. Of those, we operated 23. A good many of those, about half, I would say, of the 23 are training stations. Others are stations which we have a contractual commitment to operate.

Mr. CARLYLE. Your statement said that your company is not engaged in the retail service-station business, except for a few stations which are generally operated for training purposes.

Mr. BURKS. That is right.

Mr. CARLYLE. Do I understand you to say now that you do have thousands of stations throughout the country, that you constructed, that you furnished the money to build them with, and that you employ the manager of the station, and that you then sell to him the products that he in turn is to sell to the public?

Mr. BURKS. No, sir. There is one difference I would like to make there. We do not own all of these stations. Some of them we rent ourselves, and some of them we own. Then we lease those stations to the dealer. He is not our manager. He is not an employee of our company. He is an independent businessman who buys and sets his own prices and sells.

Mr. CARLYLE. To what extent is that manager or the person who manages that retail service station under your control?

Mr. BURKS. Not at all.

Mr. CARLYLE. Can he sell any product that he cares to?

Mr. BURKS. I beg your pardon?

Mr. CARLYLE. Could he sell any product that he might wish to?

Mr. BURKS. Yes, sir; he could.

Mr. CARLYLE. He could?

Mr. BURKS. He could.

Mr. CARLYLE. You have no control over the kind of gas or oil that he sells at that station?

Mr. BURKS. No, sir.

Mr. CARLYLE. Who owns the lease on the station?

Mr. BURKS. We lease it to him, generally speaking. Sometimes he owns his own station.

Mr. CARLYLE. Sometimes he owns his station and you lease from him; is that correct?

Mr. BURKS. That is right. Sometimes that happens.

Mr. CARLYLE. In cases where your company builds the station, of course it is not your intention to employ personnel to operate the station to sell oil that you are in competition with?

Mr. BURKS. I agree with that. We want him to sell our products and want him to push our products.

Mr. CARLYLE. Your contract with him would provide that he would sell only your product; would it not?

Mr. BURKS. You are asking for a term of the contract. May I ask my lawyer?

Mr. CARLYLE. I think I have seen some of the contracts.

Mr. BURKS. We have no product contract.

Mr. CARLYLE. Mr. Burks, would your company build a service station and spend thousands of dollars to erect it, and then lease that station to some person and let him put in some other gasoline other than that produced by your company and sell it?

Mr. BURKS. He could do it, sir, but we have usually a minimum of 1-year lease. We certainly would not have our money tied up indefinitely with some one who elected to not push the sale of our products.

Mr. CARLYLE. After you have leased a station erected upon land which your company has purchased, and you have also erected the buildings on that land, could that operator sell gasoline delivered to him by Esso Standard Oil at any price he might wish to sell it?

Mr. BURKS. Yes, sir. I think it might be interesting to get some figures concerning the price at which gasoline is being sold. We were interested in that over the weekend, so on last Saturday we hired a concern to make a survey. There is a particular area out on Long Island, in Queens and Nassau Counties. We can speak as far as our own company is concerned that the price to all the dealers in this area is the same. In other words, it is our posted tank-wagon price for that area. We checked 28 of our own stations and we found that regular-grade gasoline, Esso, was being sold at prices which varied from 26.9 cents a gallon to 29.7 cents a gallon. I will run down the list: 29.5, 29, 27.5, 28, 26.9, 28.5, 29.4, 29.7. We also obtained information on other brands of gasoline. Brand A, I will call it, we found 15 different prices for it among 37 stations. Brand B didn't have quite as many. The variations in price were about 13. Brand C, again, to about 15. Brand D was somewhat less. It looks like 12. And brand E was 11.

Then we looked in an "all other" category, and we had variations from 23.9 cents to 29.5 cents, and that also had 15 separate prices. On a total survey summarizing everything, we had 265 stations that we checked up on, and we had 28 different prices. That is something we just picked up over the weekend, Saturday, just to see in view of all the discussion which has occurred here as to whether or not the dealers did set their own prices, what variation we would actually find.

Mr. CARLYLE. When this last increase went into effect with Esso Standard, did you notify these stations throughout the country that sell your product of this increase?

Mr. BURKS. Yes, sir.

Mr. CARLYLE. Why did you do that?

Mr. BURKS. Notified them of the increase in our tank-wagon price? It was going to affect them.

Mr. CARLYLE. Did you suggest to them the price they would charge for it?

Mr. BURKS. No, sir.

Mr. CARLYLE. Of course you knew that if the gas was going to cost them more money they would have to sell it for more money?

Mr. BURKS. That is the normal thing that you would expect to happen. I talked with a service-station dealer in Connecticut, where I was Saturday and Sunday, and I asked him what he did. He said, "Well, with the first increase I passed that on plus three-tenths of a cent a gallon. On the second increase I passed it on. I passed on the same amount as the increase in my costs." So what these dealers do is in their hands.

Mr. CARLYLE. Let me ask you this: Where can a person buy a gallon of Esso Standard gasoline the cheapest in this country?

Mr. BURKE. Well, I can't answer your question offhand, sir. I would suspect in some of the Southeastern States close to the refineries, except for State tax considerations.

Mr. CARLYLE. Do you know where it is the most expensive?

Mr. BURKS. I don't happen to know; no, sir.

Mr. CARLYLE. That is all, Mr. Chairman.

Mr. SPRINGER. Mr. Chairman?

Mr. HALE. Mr. Springer.

Mr. SPRINGER. Mr. Burks, last week when there was another vice president of the Standard Co. here on the witness stand, I asked them if they would be willing to make a chart and to supply it to this committee and put it in the record as to what the increase in the cost of gasoline was as compared with the increase in the cost of living in the last 3 years. Would you be willing to do that?

Mr. BURKS. Do you mean the increase in the price of gasoline?

Mr. SPRINGER. Increase in the cost of gasoline.

Mr. BURKS. Well, sir, I don't know any way to determine the cost of gasoline.

Mr. SPRINGER. Don't you know what your product costs you?

Mr. BURKS. No, sir.

Mr. SPRINGER. There is no way you have of knowing that?

Mr. BURKS. There is no acceptable method for doing that, sir, because you have more unknowns than you have equations. It is a multiple-product industry and it is impossible to determine the cost of any single product.

Mr. SPRINGER. Would you be willing to make a chart for this committee and insert it in the record, and send each member of this committee a copy of it, of the increase in the price of gasoline and oil in your company, and the increase in the cost of living as is shown by the Department of Labor's index for the past 3 years?

Mr. BURKS. Yes, sir; we would be willing to do this. I might say this, Mr. Springer, that we would probably want to supply at the same time, information concerning a longer period.

Mr. SPRINGER. I think it would be more welcome if you went back, say 11 years. I think the committee went into great detail last week for the period since 1941, as I recall it.

(The information requested follows:)

Comparison of Retail Price Indexes

Retail price index (cost of living) versus 1. Gasoline tank wagon and service-station price indexes (20-city average; 2. Heating-oil tank-wagon price index (12-city average) in area in which Esso Standard markets

1926=100

Year	Retail price index [1] (all items)	Gasoline price indexes, 20-city average			Heating-oil price index, 12-city average, consumer tank-wagon price
		Tank-wagon price (excluding tax)	Service-station price (including tax)	Service-station price (excluding tax)	
1935	77.6	48.4	77.0	60.2	.....
1941	83.2	48.6	79.8	59.9	.....
1946	110.2	52.8	87.4	67.9	.....
1947	125.9	62.5	97.2	77.9	.....
1948	135.4	72.0	106.8	87.4	.....
1949	133.8	76.8	112.2	92.8	.....
1950	135.4	79.2	113.8	94.0	.....
1951	147.0	80.5	114.4	93.9	.....
1952	150.2	80.7	116.9	94.4	.....
1953:					
Jan. 1	150.6	81.1	118.3	96.0	.....
June 1	[2] 150.8	80.9	117.5	95.0	.....
July 15	.....	88.8	125.7	103.9	.....
1935-39=100					
1935	98.1	97.0	97.7	98.3	100.1
1941	105.2	97.4	101.3	97.8	105.1
1946	139.3	105.9	111.0	110.9	124.7
1947	159.2	125.4	123.5	127.2	141.8
1948	171.2	144.5	135.7	142.8	176.2
1949	169.1	154.1	142.5	151.6	167.7
1950	171.2	158.8	144.6	153.5	172.4
1951	185.8	161.4	145.3	153.4	183.2
1952	189.8	161.8	148.4	154.1	188.3
1953:					
Jan. 1	190.4	162.7	150.2	156.7	193.3
June 1	[2] 190.6	162.2	149.2	155.1	193.3
July 15	.....	178.1	159.6	169.7	197.6
1947-49=100					
1935	58.7	68.7	73.0	70.0	61.9
1941	62.9	68.9	75.7	69.6	65.0
1946	83.4	75.0	82.9	78.9	77.1
1947	95.5	88.8	92.3	90.5	87.6
1948	102.8	102.2	101.3	101.6	108.9
1949	101.8	109.1	106.4	107.9	103.6
1950	102.8	112.4	108.0	109.3	106.5
1951	110.0	114.3	108.5	109.2	113.2
1952	113.5	114.5	110.8	109.7	116.4
1953:					
Jan. 1	113.9	115.1	112.2	111.5	119.4
June 1	[2] 114.0	114.8	111.5	110.4	119.4
July 15	.....	126.0	119.2	120.8	122.1

[1] Retail price index shown was calculated by conversion of Bureau of Labor Statistics price index for years 1935-39 to 1926—100 basis. Retail price index on 1935-39=100 and 1947-49=100 bases are Bureau of Labor Statistics actual price indexes.

(1) Gasoline price indexes based on the average of the prices in the following 20 cities:

1. Portland, Maine
2. Manchester, N. H.
3. Burlington, Vt.
4. Boston, Mass.
5. Providence, R. I.
6. Hartford, Conn.
7. Buffalo, N. Y.
8. New York, N. Y.
9. Newark, N. J.
10. Philadelphia, Pa.
11. Dover, Del.
12. Baltimore, Md.
13. Washington, D. C.
14. Charleston, W. Va.
15. Norfolk, Va.
16. Charlotte, N. C.
17. Charleston, S. C.
18. Memphis, Tenn.
19. Little Rock, Ark.
20. New Orleans, La.

(2) Heating-oil price indexes based on the average of the prices in the following 12 cities:

1. Atlantic City, N. J.
2. Newark, N. J.
3. Baltimore, Md.
4. Washington, D. C.
5. Norfolk, Va.
6. Richmond, Va.
7. Charlotte, N. C.
8. Raleigh, N. C.
9. Charleston, S. C.
10. Columbia, S. C.
11. Boston, Mass.
12. Philadelphia, Pa.

[2] May.

Sources of information: Gasoline prices obtained from information furnished by API. Heating-oil prices are Esso Standard's consumer tank-wagon prices.

Mr. BURKS. Also, I would like to mention this, that over any large number of years although you say changes in the cost of gasoline, gasoline itself isn't the same product today that it was, say 15 years ago, not by any means.

Mr. SPRINGER. I think you have improved your product, and I think we have increased our standard of living at the same time, Mr. Burks.

Mr. BURKS. Yes, sir.

Mr. SPRINGER. That is comparable to all of us. So I think whatever the increase in the price of your gasoline, I think is all taken into consideration with the increased cost of living today.

Mr. BURKS. Today, with the changes in cost of gasoline, you can get more miles per hour and in greater luxury than you could a number of years ago.

Mr. SPRINGER. I hope you are right. With the two automobiles I have, I am still getting the same amount of miles today as I was before the war. I do not seem to notice any difference. It is a little bigger Ford, I admit that, and it still has 8 cylinders. But I am not getting any more miles, as I testified last year, than I was getting in 1938.

Mr. BURKS. Perhaps you have a bigger Ford and more power, and you are taking up the improvement in the gasoline in another way.

Mr. SPRINGER. Would you be willing to make up a chart just as to your company, now, and show us what the comparable increase in the price of gasoline and oil have been with the increase in the price of coal and gas?

Mr. BURKS. Of gasoline and oil——

Mr. HALE. Do you mean natural gas?

Mr. SPRINGER. Natural gas. I will take that back. I am not talking about gas. I am talking about distillate oil and residual oil.

Mr. BURKS. You don't want gasoline, but residual oil.

Mr. SPRINGER. I want to know the increase in the cost of your product for supplying home fuels in comparision with what the increase has been in the cost of coal and the cost of gas, which are the two others, as I see it, that make up practically a hundred percent of the heating fuel in this country.

Mr. BURKS. We have taken a look at what it would cost to heat a home with different fuels. I live in Elizabeth, N. J., therefore one of the places we considered was Elizabeth. This is a typical home which would require 1,200 gallons of heating oil in a normal year. We figure that the cost of the heating oil plus the cost of the power and servicing would be $182 a year. That does not allow anything for depreciation and it doesn't take into account the cost of installation. It is assuming you have your burner.

Now, for gas we figure that it would be $240; for a stoker-fired coal installation, $163; and for a hand-fired coal installation $205.

Mr. SPRINGER. Where did you get those figures?

Mr. BURKS. We figured them out ourselves based on the prices and cost of operations and utility rates, and so on. I can give you the details of those if you would like to have them.

Mr. SPRINGER. I mean are these your figures or are these someone else's figures.

Mr. BURKS. Yes, they are figures we keep up with in connection with knowing where we stand with respect to other competitive fuels.

Mr. SPRINGER. Have you made any comparison between what the increase has been in the cost of those?

Mr. BURKS. I don't have those figures with me, sir. From time to time we have looked at that, but I don't have those figures.

(Mr. Burks later submitted the following information:)

Relative cost of household heating, heating oil, anthracite coal, and gas, Elizabeth, N. J.

Year	Heating oil		Hand-fired coal		Stoker-fired coal		Gas	
	Total cost per year	Index	Total cost per year	Index	Total cost per year	Index	Total cost per year	Index
1946	$122	100.0	$136	100.0	$119	100.0	$168	100.0
1947	133	109.0	139	102.2	121	101.7	192	114.3
1948	166	136.1	152	111.8	134	112.6	244	145.2
1949	157	128.7	162	119.1	142	119.3	273	162.5
1950	159	130.3	165	121.3	142	119.3	273	162.5
1951	169	138.5	190	139.7	149	125.2	[1] 227	[1] 135.1
1952	175	143.4	205	150.7	163	137.0	226	134.5
July 10, 1953	182	149.2	205	150.7	163	137.0	240	142.9

[1] Natural gas starting Jan. 4, 1951.

NOTES.—(1) Based on latest degree-day normal for the New York metropolitan area.
(2) Total cost includes fuel, power, and maintenance but excludes writeoff of installation.

Mr. SPRINGER. I think it is very important to know that the increase in the cost of those has been, because I think you are making a comparable estimate here as to what your increase has been in the cost of coal, the increase in the cost of gas, the increase in the cost of oil. That gives this committee a pretty fair idea as to whether or not the oil industry itself has been fair in the increases that they have been apportioning to themselves. That is the only way I know you are going to arrive at whether or not the oil industry has been fair in this matter or has not. That is, as far as the figures are concerned.

Going to page 3 of your statement, Mr. Burks, down at line No. 6:

We concluded that we could not continue indefinitely to absorb these increased costs in the face of our declining profits, on the one hand.

Have your profits been declining?

Mr. BURKS. Yes, sir. We made more money in 1950 than we made in 1952, and we made more money in 1951 than in 1952.

Mr. SPRINGER. Did you make more on your investment, is that what you mean?

Mr. BURKS. More dollars and more on our investment.

Mr. SPRINGER. Would you give me your figures?

Mr. BURKS. For 1950 our profit was $56.9 million.

Mr. SPRINGER. Wait just a moment. 1950 was what?

Mr. BURKS. $56.9 million.

Mr. SPRINGER. All right.

Mr. BURKS. And our net worth plus our borrowed capital was $498.4 million.

Mr. SPRINGER. All right.

Mr. BURKS. In 1951 our profit was $52.8 million, and our net worth, plus borrowed capital, was $503.4 million.

Mr. SPRINGER. What did you figure in 1950 for rate of earning?

Mr. BURKS. 11.4 percent.

In 1951 the rate was 10½ percent, and in 1952 we made $50.4 million.

Mr. SPRINGER. Fifty-point what?

Mr. BURKS. $50.4 million, and our net worth, plus borrowed capital, was $549.2 million.

Mr. SPRINGER. What was your rate of earning?

Mr. BURKS. 9.2 percent.

Mr. PELLY. That is the profit after tax?

Mr. BURKS. Yes, sir; all of these figures are a profit after taxes, pertaining to profits.

Mr. SPRINGER. What relation are you to Socony?

Mr. BURKS. None whatever, sir. Standard Oil Co. of New York and the Vacuum Oil Co., prior to the dissolution in 1911, were a part of the old Standard Oil Co. My company was formed in 1927 by the Standard Oil Co. of New Jersey, which was separated from the other two that we have mentioned, and a number of others, in 1911.

Mr. SPRINGER. There is no connection between the two?

Mr. BURKS. No, sir.

Mr. SPRINGER. Any interlocking directors?

Mr. BURKS. No, sir.

Mr. SPRINGER. Let me ask you this: Have you the figures for 1943 and 1944?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. Would you give me those?

Mr. BURKS. In 1943 our profit was $18.5 million, our net worth, plus borrowed capital, was $360.4 million, and our percent return was 5.1 percent.

Mr. SPRINGER. What was it for 1944?

Mr. BURKS. Profit was $8.9 million, $321.1 million net worth plus borrowed capital, and percent return was 2.8.

Mr. SPRINGER. You have risen from 1943 from 5.1 to last year 9.2, is that correct?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. You are taking declining profit, I take it, as your peak year, of 1950, was that your peak year?

Mr. BURKS. That was our peak year.

Mr. SPRINGER. Was that bigger than 1948?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. I noticed Socony reports 13.1 percent in 1948. What do you report for that year?

Mr. BURKS. We have $13.8 million profit, $459 million net worth plus borrowed capital, and 3 percent.

Mr. SPRINGER. You made 3 percent in 1948?

Mr. BURKS. We were thoroughly dissatisfied with what we were doing in the immediate postwar years.

Mr. SPRINGER. Your best years, then, have been 1951, 1950, 1952, is that correct?

Mr. BURKS. Yes, sir. Our best years have been 1950, 1951, and 1952, and they are not good enough. We are still running behind. I mean running behind in this sense, that we are not making enough money to finance the capital investments which we have to make in order to keep up with the demand.

Mr. SPRINGER. Would you explain that again?

Mr. BURKS. Our business is one which has about a 5-percent rate of growth, and to keep up with the demand that our customers expect

us to supply, we have to make very large capital investments. In order to be in a financial position to make those capital investments, we just have to make more money than we were making prior to 1950 and than we are making now.

Mr. SPRINGER. Now let me ask you this: In 1951 you were worth $503 million, in 1952 you were worth $549 million. You have increased your net assets $46 million, is that correct?

Mr. BURKS. Yes, sir. And we are making less money on them.

Mr. SPRINGER. You are making less on assets, but you have increased your assets which makes your assets how much more, $46 million as against $500, or roughly 16 percent. Is that right?

Mr. BURKS. Our book value has gone up.

Mr. SPRINGER. Your book value is worth about 9 percent more, is it not?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. Is that not right?

Mr. BURKS. But you see, I would like to mention this, that during the last war years and the postwar years, through 1949, we went in debt to the extent of $124.5 million. In other words, our earnings plus our depreciation were by no means adequate to take care of the expansion and the replacement of facilities which were required in order for us to meet our customers' demands.

Mr. SPRINGER. When you estimate that $549 million you have taken depreciation off of that, have you not, Mr. Burks?

Mr. BURKS. Yes, sir. These are the net figures.

Mr. SPRINGER. These are the figures of the net investment?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. I have not seen any oil company coming in here yet, being my own banker, that could complain about what his financial situation has been. I think he has done excellent in the last 5 or 6 years, and I must take the trend of industry generally that you have done very well. I think every man is worth his own bread. Whoever he is, though, I am not kicking on that. I think this committee is certainly interested in knowing whether or not you are being fair with the public.

I am certainly not one to say that you are, but I think that is the question. The more I get at these figures, I think your companies, and as I read these prospectuses or whatever they are, that come in, at the end of the year practically every president of every oil company thinks that the company is doing pretty good. At least they say so in their statement, and I think these figures back it up. I think every company that has been in here, the five companies that have testified thus far, are doing much better than they have done in previous years and their capital investment is going up.

Let me ask you this: I don't understand it, but everybody who comes in here has maintained to every member of this committee that has asked him, that you have nothing to do with the setting of prices.

Mr. BURKS. Gasoline prices, retail prices?

Mr. SPRINGER. Yes.

Mr. BURKS. No, sir; we don't.

Mr. SPRINGER. You do not maintain that. I think that is sort of a fiction, and I would go ahead and admit that you do. I mean, I think you are sort of stretching it to the members of this committee by insisting that you are not. I do not know what it was on Long Island.

I came down this morning and I looked at four stations because I knew you were going to be here as a witness, and I thought I would ask you. The four stations were all the same. That is from one end of Washington to the Capitol. From where I live, that is 8¾ miles. There was no change in gasoline.

My understanding of the situation is that the major company or two in the area more or less set the price by the fact that they set a price, and everybody else competes with them. Is that not about it?

Mr. BURKS. No, sir; we don't set a service-station price. We set a tank-wagon price which is the price at which the product is delivered to the service-station dealer. It is up to him to determine what price he is going to charge the public. We do not set the price that the service-station dealer sells for. You have quite a few ideas as to what is the proper difference between the tank-wagon price and the service-station price, as was demonstrated by the results of our survey around on Long Island. We made, also, a survey around Camden, thinking that the chairman would be interested in it, and we found the same kind of thing applied.

Mr. SPRINGER. Over what area did you make the survey around Camden?

Mr. BURKS. I will tell you, sir.

Mr. SPRINGER. All right.

Mr. BURKS. I will tell you. We made the survey within the city, and then along Admiral Wilson Boulevard, and then around Burlington, Mount Holly, Palmyra, Pensauken; and then going toward the shore, Hadden Heights, Audubon, Berlin, New Jersey Routes 42 and 43; and then along the Delaware River, Gloucester, Paulsboro, Woodbury, and so forth. The reason we did that is because in New Jersey we have a single tank-wagon price, so the cost of gasoline there to all our dealers, at least, is the same.

Mr. SPRINGER. I will yield to Mr. Heselton.

Mr. HESELTON. Please be sure to put that to the chairman, will you? I know for years he has been puzzled with the situation.

The longer you serve on this committee, I think, Mr. Springer, the more difficult it will be for you to understand these economics. They pass far beyond anything you ever studied in college. There is an antitrust law and, of course, you will not be able to get a witness here to ever admit that they have anything whatever to do with prices.

Mr. SPRINGER. You own an Esso station at Constitution and Second Avenues here, do you not?

Mr. BURKS. I don't know, sir. Maybe we do. I simply don't know.

Mr. SPRINGER. I am pretty sure you own that, I do not think you lease it. I think that is your company. And the regular grade there sells at 28.8 and the premium at 30.8. Do you think there is any other Esso station that is going to sell at a different price in the Washington area? I have not made a survey of that, but I would wager you a good spring hat that they are the same every place in Washington.

Mr. BURKS. Well, sir, it did not turn out that way in Camden, and it did not turn out that way in Long Island. I might say I was surprised at the variation which was found to be the case.

Mr. SPRINGER. Let me say this to you: Sometimes it is true in Virginia, when I ask you how far an area did that extend, it is true that

if you go outside of an area the price will change a penny or two. If you go over to Virginia on some days you will buy gasoline cheaper, and you only cross the river. But the point I am making is that in a particular area wherever you are, all the gasoline stations sell at the same price, do they not?

Mr. BURKS. Well, sir, that is what I would have thought would have been the case, until we made this survey. And for Camden and for the counties that I mentioned on Long Island, that was not the case.

Mr. SPRINGER. Well, I would say Long Island—what is Long Island, a hundred miles long?

Mr. BURKS. Yes, sir. But this is certain relatively restricted areas. It is Queens and Nassau Counties, Lynnbrook, Rockville Center, Hempstead, Garden City, Mineola, New Hyde Park, Floral Park, and Queens Village.

Mr. SPRINGER. That is quite an area in itself. You are going to get outside of an area there. I do not mean that you lock this off by States.

Mr. BURKS. No, sir; this is not too big an area. It is an area in which the same tank-wagon price applies to the service-station dealers, and they set different prices.

Now, that is the point that we want to make, that these prices are set by the service-station dealers. They do it on the basis of their own judgment and what they figure is their competitive situation, and other factors which they take into account. We do not set them.

Mr. SPRINGER. Now let me say this to you: Actually, in the city of Champaign, Ill., and Urbana, where I live, which is two separate communities separated by the street, I have never known the price of gasoline to be any different in any station except when there was a war, and that lasted a couple of weeks. Then nobody knew what the price was going to be. But I have never known the price to be different in one part of Champaign than in Urbana. When you go to Decatur, a distance of 40 miles away, you will find that the price of gasoline there often is not the same as in Champaign.

Mr. BURKS. I do not know the exact area covered, but I can find out just how many square miles we covered and how much in each direction and will be glad to get it for you.

Mr. SPRINGER. Last week an admission that one of the gentlemen who testified here, and I think it was Socony, was this, that actually the sale price, as I recall it at the tank wagon was the same every place. But he admitted that they actually sent out a notice which was published in the newspaper the day before that at their stations they intended to raise the price for the next day. That is at their station. They only operated I think he said 60 stations. But I take it that every person who had a station leased from Socony got the word in time to get his gasoline raised by the next morning. I take it that that is the thing you engaged in, too. Don't you do the same thing?

(Socony-Vacuum submitted the following information:)

Mr. Springer stated it to be his recollection from previous testimony that Socony-Vacuum notified the dealers who sold its brand of gasoline a day before it intended to raise the price at company-operated retail stations. Mr. Springer may also have gotten the impression that the main reason why Socony-Vacuum operates some stations with its own employees is to establish a measure of control over retail prices charged by service-station dealers generally.

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Any uncertainty which may exist as to the import of Mr. Willett's testimony should be clarified. The notice which Socony-Vacuum gives to dealers before a gasoline price rise is put into effect refers only to the tank-wagon price of gasoline. This is the price which we charge to dealers who purchase gasoline from us and they, of course, are entitled to be given prompt notice of any change.

Socony-Vacuum and its affiliates operate only 42 stations throughout the United States. These stations are too few in number to have any price significance. A few illustrations will support this statement. In our New England division which is responsible for the marketing of gasoline in the States of Maine, New Hampshire, Massachusetts, and Rhode Island, we have only three training stations and these are located at such widely scattered points as West Newton, Mass.; Manchester, N. H., and Springfield, Mass. Two of the States covered by this division, namely, Maine and Rhode Island, have no training stations at all. In our Philadelphia division, which covers the District of Columbia and the States of North and South Carolina, Virginia, West Virginia, Maryland, Delaware, most of Pennsylvania, and part of New Jersey, there are only four training stations, again at widely separated points. In our White Star division which covers our marketing activities in Michigan and Ohio there is only one training station operated by our company. As has already been testified, almost all of the 42 company-operated stations are for training purposes and experimental merchandising. Dealers and jobbers who want special training in station operation are given courses at these stations. Some of them are also used to try out ideas for salesmanship and operations so that suggestions we make to our dealers and jobbers can be pretested and therefore more likely to be helpful to these customers.

Mr. BURKS. We tell our service-station dealers; yes.

Mr. SPRINGER. You tell them actually you are going to raise in your own gasoline stations, 50 or 60 or whatever you run, do you not?

Mr. BURKS. We have a total of 23. As far as those which are used for training stations is concerned, we set our service-station price in line with what the dealers establish around us.

Mr. HALE. Mr. Springer, it is 7 minutes past 12. The chairman wishes to reconvene the committee at 2. I think, unless you have something that is very pressing now, we had better suspend until 2 o'clock.

Mr. SPRINGER. All right. I have about a half dozen more questions I wish to ask, but I can take them up at that time, Mr. Chairman.

Mr. HALE. The committee will stand adjourned until 2 o'clock.

(Whereupon, at 12:08 p. m. the committee was recessed, to reconvene at 2 p. m. the same day.)

AFTER RECESS

(The hearing was resumed at 2 p. m.)

Mr. HESELTON (presiding). The hearing will come to order, please.

Unfortunately, the chairman and other members of this committee were not reached this morning by the Rules Committee, and they are now before the Rules Committee on another bill coming out of this committee. He has asked that we go ahead so that you will be able to complete your testimony.

I believe Mr. Springer was questioning you.

Mr. SPRINGER. Mr. Burks, do you have a copy of your lease agreement with your station operators with you?

Mr. BURKS. No, sir, I do not.

Mr. SPRINGER. Would you be willing to put one of your lease agreements, a blank copy, in the record so this committee would know what kind of agreement you have with your filling-station operators?

Mr. BURKS. I would see no objection to that, sir.

Mr. SPRINGER. You will do that then, will you?
Mr. BURKS. Yes, sir.
Mr. SPRINGER. May it be made a part of the record?
Mr. HESELTON. That will be done.
(It is as follows:)

Agreement made this_____day of_____, 19___ by and between Esso Standard Oil Co., a Delaware corporation, having an office at_____, hereinafter called "Lessor", and _____ of _____, hereinafter called "Lessee".

Witnesseth:

Lessor does hereby demise and lease unto Lessee and Lessee agrees to take all that lot, piece or parcel of land, situate in the town or city of_____, County of_____, State of_____, more fully described as follows:

_____

_____

Together with all rights-of-way, easements, driveways and pavement, curb and street front privileges thereunto belonging and together with all the buildings, improvements, and equipment thereon or connected therewith, including the following property:

_____

_____

To hold the premises hereby demised unto the Lessee for a period of 1 year beginning at 12 o'clock noon on the _____ day of _____, 19____, and ending at 12 o'clock noon on the _____ day of _____, 19____, on the following terms and conditions:

(1) Lessee shall pay the following rent: _____

_____

(2) It is understood and agreed that Lessor does not warrant, in any respect whatsoever, any equipment or personal property leased herein, or which may hereafter be installed upon the demised premises by Lessor, including, without limitation, the condition thereof or the fitness thereof for any purpose.

(3) It is understood and agreed that if Lessor is not the owner of the premises herein demised, then the within lease and the estate created hereby are subject to all of the terms, provisions, and conditions of the lease or other arrangement under which Lessor holds the said premises, and if because of such lease or other arrangement under which Lessor holds the said premises, Lessor's tenancy is canceled and terminated then the within lease shall be automatically terminated and canceled without further act of the parties hereto and without any liability on the part of Lessor.

(4) Lessee agrees to make no unlawful or offensive use of the premises and to comply with all statutes, ordinances, rules, orders, regulations, and requirements of Federal, State, and municipal governments, and administrative bodies; to pay the rent herein specified at the time when same is due; to make no assignment of this lease nor sublet the premises herein demised; to make no additions or alterations to the structure of the buildings, improvements, or driveways without the written permission of Lessor; to make no repairs at the expense of Lessor without the written consent of Lessor; Lessor agrees, at its expense, to make all repairs to the premises and to the equipment owned by it included in this lease which Lessee notifies Lessor in writing are needed, provided, however, such repairs are necessary in Lessor's opinion and are not caused by the negligence or misuse of Lessee.

(5) Lessor will pay all real estate and personal property taxes on the real and personal property herein demised, and Lessee agrees to pay all other taxes, license fees, and charges necessary for the operation of Lessee's business on said premises, including charges for water, gas, and electric current that may be consumed on said premises.

(6) If said premises or any part thereof shall, during said term or previous thereto, be damaged by fire, and Lessor shall elect to repair the same, abatement will be made for the rent corresponding to the time during which and the extent to which the said premises may have ben untenantable, but if the building or buildings should be so damaged that Lessor shall decide not to rebuild, the term of this lease shall cease and the aggregate rent be paid up to the time of the fire.

(7) Lessee agrees at the expiration or other termination of this lease to quit and surrender, peaceably and quietly to Lessor, its agent or attorney, the premises

and equipment herein leased in as good order and condition as they now are, ordinary wear and tear, fire, and acts of God excepted, and not to make or suffer any waste thereof, replacing or paying to Lessor the reasonable value of any damage to the premises or equipment caused by Lessee's negligence or misuse.

(8) It is agreed that if any rent shall be due and unpaid, or if default shall be made in any of the covenants herein contained, then it shall be lawful for Lessor without formal demand or notice of any kind to reenter said premises, remove all persons therefrom and terminate this lease.

(9) Lessor covenants that Lessee on paying said rent and performing the covenants aforesaid shall and may peaceably and quietly have, hold, and enjoy the said leased property for the term aforesaid, subject to the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this agreement to be properly executed in duplicate.

ESSO STANDARD OIL CO.
(Lessor)

By _____
Division Manager

_____ (Witness)

_____ (Witness)

_____ (Lessee)

Mr. SPRINGER. Mr. Burks, I understood you made a survey of the Camden and surrounding area. Are any of the stations which you have mentioned located on Admiral Wilson Boulevard?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. Would you tell me which one of those stations you have listed?

Mr. BURKS. There were four of our stations; that is, our dealers' stations.

Mr. SPRINGER. On Admiral Wilson Boulevard?

Mr. BURKS. Yes, sir; and they posted the same price.

Mr. SPRINGER. What price was it?

Mr. BURKS. 26.9 cents a gallon. Now, brand A, there were 3 stations; 2 had 26.9, and one had 25.9.

Mr. SPRINGER. One was 25.9?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. Now those were brand A stations?

Mr. BURKS. That is right. Now, brand B, we had 2 at 26.9.

Mr. SPRINGER. Brand B was what?

Mr. BURKS. There were 2 at 26.9; and brand C was 1 at 26.9, and brand D, 2 at 26.9; and then in all other categories we had 3 at 24.9.

Mr. SPRINGER. That is all other brands?

Mr. BURKS. That is right.

Mr. SPRINGER. Three at what price?

Mr. BURKS. 24.9.

Mr. SPRINGER. Now, let me ask you: All other brands, does that include what is known as the cut-rate group?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. Are those three in that?

Mr. BURKS. I do not know, sir.

Mr. SPRINGER. You do not know?

Mr. BURKS. I would not be surprised if they were, but I do not know that they are.

I have not finished on this. There was 1 at 25.9, and 2 at 26.9.

Mr. SPRINGER. These are all on Admiral Wilson Boulevard in Camden?

Mr. BURKS. That is right.

Mr. SPRINGER. Now, of the standard A, B, C, and D—which I take it are the standard brands.

Mr. BURKS. They are major competition.

Mr. SPRINGER. There was one that was selling a penny less; is that right?

Mr. BURKS. That is correct. There was more similarity there than any other place we examined.

Mr. SPRINGER. What is that?

Mr. BURKS. There was more uniformity of price there than at any other area we examined.

Mr. SPRINGER. In other words, 7 out of 8 maintained the same price on Admiral Wilson Boulevard, and 1 was different?

Mr. BURKS. There were 12.

Mr. SPRINGER. I mean there are eight of the standard brands.

Mr. BURKS. If you include ours as standard brands, you get 12.

Mr. SPRINGER. You have four; have you?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. I see. That is 11 out of 12.

Mr. BURKS. We expected to find every one of them the same, Mr. Springer.

Mr. SPRINGER. Can you account for one of them selling at 25 cents?

Mr. BURKS. No, sir; I do not know why he was doing that.

Mr. SPRINGER. That is very uniform, though, do you not think, Mr. Burks?

Mr. BURKS. That is on Admiral Wilson Boulevard; yes, sir. There are other areas there where you did not find such uniformity, where the same tank-wagon price applied in the Camden area. We have the same tank-wagon price throughout New Jersey.

Mr. SPRINGER. You have the same tank-wagon price throughout all of New Jersey?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. What percentage in the State of New Jersey showed that they were selling at a different price than what you were selling at in your stations?

Mr. BURKS. I do not have any figures on that, sir.

Mr. SPRINGER. You do not have any?

Mr. BURKS. No, sir.

Mr. SPRINGER. Would you be willing to, from your survey, submit for the record when you have figured them up, whoever is going to do it, and submit for the record the percentage of stations in this survey in New Jersey that were of the same price and those that were of some other price? I am talking about only among the five majors, and I do not want the off-brands, because there are different factors involved in that, and I think I know what those are.

Mr. BURKS. Although in some of those "all others" there are some majors.

Mr. SPRINGER. Well, you submit those five majors, that is what I want to know, because I think that there you are hitting about what our investigation wants to know. Will you do the same thing and give us the percentage of those with the same prices in the other areas?

Mr. BURKS. In the Long Island group, you mean?

Mr. SPRINGER. Yes; those were the two surveys you made; in the Camden-Elizabeth area, that is one.

Mr. BURKS. In Camden and surrounding towns.

Mr. SPRINGER. And in the Long Island area.

Mr. BURKS. Yes; in Queens County and Nassau County.

Mr. SPRINGER. You will be willing to do that for the record and see it gets in to the clerk?

Mr. BURKS. Yes, sir.

I might add one thing. We did get some data pertaining to Philadelphia, too, but I have not quoted those figures yet, although they do show quite a substantial variation in price. The reason was that there is a different tax in Pennsylvania than there is in New Jersey, but they show the same kind of information.

Mr. SPRINGER. Would you submit that on the five majors that you have named here as yourself, A, B, C, and D?

Mr. BURKS. Yes, sir.

(The information is as follows:)

Service-station prices—Regular-grade gasoline—Information from survey conducted July 11, 1953

Price postings (cents per gallon), including State and Federal tax	Philadelphia area (State tax, 5 cents; Federal tax, 2 cents)				Camden and surrounding area (State tax, 3 cents; Federal tax, 2 cents)				Long Island area (State tax, 4 cents; Federal tax, 2 cents)			
	5 majors		Other majors and independents		5 majors		Other majors and independents		5 majors		Other majors and independents	
	Number of stations posting	Percent of stations posting	Number of stations posting	Percent of stations posting	Number of stations posting	Percent of stations posting	Number of stations posting	Percent of stations posting	Number of stations posting	Percent of stations posting	Number of stations posting	Percent of stations posting
22.9							1	0.6				
23.5							1	0.6				
23.9							8	5.3			1	1.1
24.0					1	0.5						
24.3							1	0.6				
24.4					1	0.5						
24.5											2	2.2
24.6							1	0.6				
24.9			2	5.6	8	4.0	27	17.6	1	0.6	2	2.2
25.0									1	0.6		
25.2							1	0.6				
25.4					4	2.0	2	1.3				
25.5									5	0.6		
25.8							1	0.6				
25.9			3	8.3	32	15.9	21	13.7	17	9.8	13	13.9
26.0					1	0.5			7	4.1	3	3.2
26.2					2	1.0	4	2.6				
26.4					3	1.5	4	2.6				
26.5					1	0.5			7	4.1	3	3.2
26.7					9	4.5	3	1.9	2	1.2		
26.9	4	5.8	2	5.6	139	69.1	77	50.1	14	8.1	3	3.2
27.0									10	5.8	7	7.5
27.4							2	1.3				
27.5									13	7.5	6	6.5
27.9	19	27.5	8	22.2					6	3.5	5	5.4
28.0									12	6.9	10	10.7
28.2			1	2.8					1	0.6		
28.3									1	0.6		
28.4									1	0.6		
28.5	7	10.1	3	8.2					6	3.5	5	5.4
28.6	1	1.5										
28.7	2	2.9							1	0.6	1	1.1
28.8									1	0.6	1	1.1
28.9	35	50.8	15	41.7					2	1.2		
29.0	1	1.5	2	5.6					34	19.7	12	12.9
29.4									1	0.6		
29.5									30	17.4	17	18.2
29.7									1	0.6		
29.9									2	1.2		
30.0									1	0.6	2	2.2
Total	69	100.0	36	100.0	201	100.0	154	100.0	172	100.0	93	100.0

Mr. SPRINGER. You understand what I want? That is the percentage of variation and the percentage of those that carried the same price.

Mr. BURKS. As I understand it, you want the total number of stations that post each price which we found posted.

Mr. SPRINGER. Among the five major groups.

Mr. BURKS. Yes, sir.

Mr. SPRINGER. And then I want to know the percentage of those that had different prices and the percentage of those that had the same price.

Mr. BURKS. We will add up the total stations and give you the percentage posting each price.

May I be sure, Mr. Springer, that one answer which I gave you is understood? You asked a question in connection with the advice we gave our service-station dealers concerning price, and I said, "Yes, we did advise them of the price." Now the price to which I referred in that statement was the price at which we billed gasoline to them. We never tell them at what price they should sell gasoline because that is not within our jurisdiction.

Mr. SPRINGER. I understand that, but do not you make a public announcement that you are going to raise the price of gasoline at your retail stations?

Mr. BURKS. No, sir; we indicate the increase in price which we will make at the tank-wagon level.

Mr. SPRINGER. Do not you make any statement that you are going to increase the price at your pumps in your own stations?

Mr. BURKS. We have only a few stations, 23 out of 24,600, and on those stations we price our gasoline at the prevailing price the dealers establish adjacent to those stations.

Mr. SPRINGER. You do not set any price yourself?

Mr. BURKS. No, sir; we do not set it. We let the others set it and we follow.

Mr. SPRINGER. Will you listen to this very carefully, because I think it is very important. In the adoption of each one of these price raises that you have made since January 1, 1953, did you adopt those in the belief that each and every one of those raises were good business practice?

Mr. BURKS. Yes, sir; we did. We feel that when we institute a change in price, it has to be based on the best judgment of all of the people in our company that are responsible for making such adjustments, and we use our business judgment as to what we should do.

Mr. SPRINGER. Let me ask you this: Socony made a raise, as I recall from the testimony of the vice president, back in February or March of this year. Did you make a similar raise at that time?

Mr. BURKS. No, sir; we did not.

Mr. SPRINGER. When was the last raise that you made prior to this one in June?

Mr. BURKS. The last general gasoline price raise was in July of 1950.

Mr. SPRINGER. Did you make one in May of this year?

Mr. BURKS. No, sir.

Mr. SPRINGER. Mr. Chairman, just to refresh my recollection, did not some of the companies make raises in May?

Mr. HESELTON. I cannot recall; I think only one.

Mr. SPRINGER. Mr. Burks, when you answered my previous question, are you referring to the one in the latter part of June or the one in the first part of June?

Mr. BURKS. The first price change that we made of a general nature since July 1950 was the one that we made on June 11, 1953. Now, that was prior to the product price increases that we made to recover almost all of the effect of the crude-cost increase.

Mr. SPRINGER. You made two increases?

Mr. BURKS. Yes, sir; in certain States.

Mr. SPRINGER. That was June 11 and about June 22?

Mr. BURKS. That is correct.

Mr. SPRINGER. Let me ask you, within 48 hours either way of those dates did other companies make similar raises?

Mr. BURKS. Socony-Vacuum announced on June 9 that effective June 10 it would increase the tank-wagon and tank-car gasoline prices in New York and New England.

Mr. SPRINGER. Did any other company announce within 48 hours either side of those dates that it would increase its tank-wagon prices?

Mr. BURKS. On June 12 several majors did adjust their gasoline prices in New York and New England.

Mr. SPRINGER. Would you name those for the record that did within that 48-hour period?

Mr. BURKS. Atlantic, Gulf, and Shell.

Mr. SPRINGER. Atlantic, Gulf, and Shell?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. What about Sinclair?

Mr. BURKS. I do not seem to have the record as to when they did it.

Mr. SPRINGER. They did make a similar raise, though, or have made a similar raise within the last 6 weeks?

Mr. BURKS. To the best of my knowledge, yes, sir; as far as I know, all of the gasoline suppliers have increased their prices.

Mr. SPRINGER. What about Phillips?

Mr. BURKS. I do not think Phillips markets in New York and New England.

Mr. SPRINGER. What about American Oil Co.?

Mr. BURKS. To the best of my knowledge, sir, they increased their prices, too, and I do not have any specific record of that as to when; but I am quite sure they did. In other words, if they had not, I would have heard about it, because that would have been major competition which would have tended to prevent the price increases from being maintained.

Mr. SPRINGER. Will you state, if you know, the name of the company that first made the raise?

Mr. BURKS. Socony-Vacuum.

Mr. SPRINGER. On June 9?

Mr. BURKS. The first one we knew about was effective June 10 and they announced it June 9.

Mr. SPRINGER. And on what date did you make your raise?

Mr. BURKS. June 11.

Mr. SPRINGER. Did you have any previous knowledge that Socony was going to make that raise?

Mr. BURKS. No, sir.

Mr. SPRINGER. Can you speak for your company and say it had no knowledge that Socony was going to make it?

Mr. BURKS. To the best of my knowledge, it had no knowledge of that.

Mr. SPRINGER. Did your company make this raise to more or less stay in line with what Socony was doing?

Mr. BURKS. As I explained in my prepared statement, we had been studying this situation, and we had been talking it over with our division managers, and we had decided, almost decided I would say, what we would like to do.

Mr. SPRINGER. This merely implemented you and sort of moved you along in the frame of mind of making a raise?

Mr. BURKS. Well, that indicated that somebody else, some other company, had analyzed the basic conditions and arrived at essentially the same conclusion that we had.

Mr. SPRINGER. Would you say that in the area where these raises were made, in New York, New Jersey, and New England, that Socony is the pace setter?

Mr. BURKS. Socony is the leading marketer in New York and New England. New Jersey prices were not changed at that time.

Mr. SPRINGER. In the past have most of the companies in that area followed Socony prices up and down?

Mr. BURKS. Well, sir, you had variations; and sometimes yes and sometimes no. We did not follow them in February when they increased, because we did not think the timing was right for it.

Mr. SPRINGER. When Socony made that raise in February, did they raise the price on oil and gasoline at their stations?

Mr. BURKS. They raised or announced an increase in price in their tank-wagon prices. As Mr. Willetts testified, they are in a quite similar position to ourselves, and they operate very few stations as I remember his testimony.

Mr. SPRINGER. Do you know whether or not they raised their station prices when they put that tank-wagon price on?

Mr. BURKS. You mean whether the dealers raised their service-station prices?

Mr. SPRINGER. Whether they raised them at their stations at their own pumps, the 50 to 60 stations that they owned?

Mr. BURKS. That I do not know, sir.

Mr. SPRINGER. Now, according to your statement, Mr. Burks, on page 2, and I quote from that, in paragraph 4:

> Our total wage and salary costs were $153 million during 1950, and were some $196 million during 1952. This represents an increase of 28 percent. Our rates of pay on June 1 of this year were nearly 20 percent higher than 1950. Our tanker transportation costs for moving crude and products from the gulf to the eastern coast terminal was 15 percent higher than in 1950. Refinery construction costs have increased 22 percent.

That is about an average, as I take it, around in the neighborhood of 23 to 24 percent increase in your costs from 1950 through 1952. Have you made any examination of the cost-of-living indexes by the Department of Labor to determine whether or not that approximated the increase in the cost of living generally during that 2-year period?

Mr. BURKS. I have looked at those figures, Mr. Springer, and I do not recall them right now. I would think that in general the increases

in wages and wage rates were higher than the increase in the cost of living.

Mr. SPRINGER. That wages were higher?

Mr. BURKS. The increase in wages was a greater percentage increase than the increase in the cost of living.

Mr. SPRINGER. Now, was the increase in the cost, or I should say the increase in the price of your product during that time equal to this increase in costs which you have encountered during that same period of time?

Mr. BURKS. You mean did we exactly offset the increase in cost with the increase in the price?

Mr. SPRINGER. I want you to approximate that if you can.

Mr. BURKS. Well, sir, that is a difficult question to answer. You see, as I pointed out, our earnings had decreased $6.5 million from 1950 to 1952.

Mr. SPRINGER. Your last increase was in June of 1950?

Mr .BURKS. Yes, sir.

Mr. SPRINGER. And what was that?

Mr. BURKS. What was the amount of it?

Mr. SPRINGER. Yes.

Mr. BURKS. I do not recall, Mr. Springer.

Mr. SPRINGER. You do not remember what your increase was at that time?

Mr. BURKS. I do not remember what the increase in gasoline price was.

Mr. SPRINGER. When was the last increase before 1950?

Mr. BURKS. I do not know, sir.

Mr. SPRINGER. You do not know when the last increase was?

Mr. BURKS. I could find it out, but I do not have that information with me.

Mr. SPRINGER. Now, just one further thing: You have increased approximately 24 percent in your cost of doing business, I take it; that is what you are trying to say in this paragraph. Is that right?

Mr. BURKS. Well, these particular items. Now, you appreciate that crude cost is a major item of cost with us.

Mr. SPRINGER. You increased that 25 cents a barrel.

Mr BURKS. No, sir, that had not happened up to this time.

Mr. SPRINGER. You mean up to 1950?

Mr. BURKS No, sir, it had not happened from 1950 until June 10 when we were considering making these gasoline price changes.

Mr. SPRINGER. You made a 25-percent increase on the sale price of crude oil; that is your offer, is not that right?

Mr. BURKS. No, sir, it averages about a little over 25 cents a barrel.

Mr. SPRINGER. It is 15 to 35 depending upon the quality?

Mr. BURKS. 10 to 35, it is.

Mr. SPRINGER. So you are somewhere between 20 and 25 cents, and it is selling at what now, and how much?

Mr. BURKS. That is the crude price; it depends upon the grade of crude; east Texas, at the well, as I remember the figure, is $2.90.

Mr. SPRINGER. What is your other figure?

Mr. BURKS. If you want crude prices at the well, I do not know whether I have those or not. I may have a list of those.

I will supply those for the record.

(The information is as follows:)

Well prices for typical domestic crudes purchased by Esso Standard Oil Co.

Grade	State	Gravity °API	Price at well $/bbl. (42 gallons)
Fouke	Arkansas	30	$2.60
Magnolia-Limestone	do	38	2.86
Lisbon-Pettit	North Louisiana	35	2.70
Haynesville	do	39	2.88
Saline Lake	Central Louisiana	39	2.93
Hemphill and Nebo	do	39	2.98
Olla	do	30	2.85
Delhi	East Louisiana	40	2.95
Lake St. John	do	40	3.00
Delta Farms	South Louisiana	37	2.99
Church Hill	Central Mississippi	40	2.95
La Grange	do	41	3.00
Brookhaven	do	35	2.96
Yellow Creek	Mississippi (heavy crude)	19	1.91
Sweden	Texas	40	3.10
Heavy Refugio	do	23	2.86
Hawkins	do	26	2.19
West Texas	do	31	2.59

Mr. SPRINGER. Actually, your increase for the price of crude has been in the neighborhood of 15 percent; is not that right?

Mr. BURKS. Between 10 and 15 percent; yes, sir.

Mr. SPRINGER. That is between 10 and 15 percent?

Mr. BURKS. Well, on the lower-priced crudes, where we increased 10 cents a barrel, that is not as much as 15 percent.

Mr. SPRINGER. Well, now, take your increases of the two in this year, they have amounted to how much? That is your two increases in June of 1953. They have amounted to how much in dollars and cents?

Mr. BURKS. You mean our two increases in the price of gasoline?

Mr. SPRINGER. That is right; per gallon?

Mr. BURKS. Per gallon of gasoline, you mean? On the average it has been about a cent and a quarter.

Mr. SPRINGER. For each raise?

Mr. BURKS. No, sir; that is the average of the 2, the sum of the 2.

Mr. SPRINGER. That is a cent and a quarter?

Mr. BURKS. Yes; our first raise averaged forty-five one-hundredths of a cent per gallon in the area in which we marketed. When I say the first raise, I mean the one carried through the whole territory in which we marketed.

Mr. SPRINGER. Now, a cent and a quarter figures out, does it not, at roughly about an increase of 4 percent?

Mr. BURKS. On what price, on what base price? The service-station price or what?

Mr. SPRINGER. How much is the increase of 1¼ cents? How much of a percent of an increase is 1¼ cents? Now, base that without tax, Mr. Burks.

Mr. BURKS. Now, I can tell you our tank-wagon price in New Jersey today, ex tax, is 15.9 cents. Now, in New Jersey we went up 1.3 cents in 2 raises, so that leaves prior to any increase 14.6 ex tax. It is 1.3 divided by 14.6, the figure that you are after, sir.

Mr. SPRINGER. I want to confirm this with the staff, and I want to get this in the record, and that is the reason I am taking the time. Would you concede, Mr. Burks, that that is 8-percent increase?

Mr. BURKS. It is approximately that.

Mr. SPRINGER. You may figure it if you wish.

Mr. BURKS. That is nearer 9 percent; it is between 8 and 9 percent.

Mr. SPRINGER. You are willing to concede that the increase percentagewise at tank wagon, without taxes, is between 8 and 9 percent in this area?

Mr. BURKS. Yes, sir.

Mr. SPRINGER. Now, your justification—and I am trying to see if this is correct, and I am trying to get your position—is that due to the fact that you believe you have had increases in costs, both primary and ultimate, of about 24 percent, that you are justified in increasing the price of your product between 8 and 9 percent?

Mr. BURKS. No, sir; it is not quite that.

Mr. SPRINGER. Would you just make your explanation?

Mr. BURKS. The reason I say that is because as of that time, crude had not increased in price, and crude is the major part of our cost at the refinery. So there had not been an increase in our overall cost of products of 24 percent.

Mr. SPRINGER. Do you have an opinion as to what your overall cost in the price of your product was?

Mr. BURKS. No, sir; I have not worked that up.

But, Mr. Springer, we desired not only to recover the additional costs which we had incurred but to increase our profit position. You see, we would do that by increasing the price, and we would recover a part of the costs or all of the costs, and then maybe we would get some more. You see, we were not at all satisfied with our rate of earnings and, therefore, we did not go through that specific calculation to see exactly what percent our costs had been increased.

We knew that if we increased prices to the extent that this forty-five one-hundredths of a cent would go, our income would be increased about $13.5 million, and a half of that is around $6.5 million after taxes. That is the reason I took half of it.

Mr. SPRINGER. You were then putting yourself back in about the situation you were 2 years ago?

Mr. BURKS. That is right; and today we have a much bigger investment, and this year we are adding to our investment more than we have any year of the past four.

Mr. SPRINGER. Now, just one further line of questioning, Mr. Burks, and then I am through.

In your calculations when you made this price increase, did you intend to split any part of this increased cost with the filling-station operator?

Mr. BURKS. No, sir; this was an increase in our tank-wagon price, which is the price at which we contemplated charging our gasoline to the service-station dealer. There was nothing in any price increase we made for him at all. He is capable and does set his own selling price, and he can vary his margin to the extent that his competition will let him do it.

Now, in different areas, there was different reaction to this. Our service-station dealers in New England, as near as we can obtain the information, either increased not at all or up to about three-tenths of a cent a gallon, their margin. In New York you have quite a variation. Some went up a quarter of a cent, and some went up half a cent in their margins.

And in New Jersey we estimate that roughly 45 percent of the dealers increased their margins two-tenths of a cent, and 55 percent made no increase in margins. In Pennsylvania we figured that the service-station dealers increased their margin perhaps six-tenths of a cent. In West Virginia it was two-tenths of a cent. In Virginia it was approximately seven-tenths of a cent. So you see you have all kinds of variations among the service-station dealers as to what they do.

Mr. SPRINGER. How much did you increase yours at your stations?

Mr. BURKS. Well, sir, I do not have the records on each of those stations, and I would be glad to get the information for you.

Mr. SPRINGER. All right; would you do that and furnish it?

Mr. BURKS. I will be glad to.

(The information is as follows:)

Increases in selling prices of Esso gasoline at company owned and operated service stations in June and July 1953

Station location	Increase in company's tank-wagon price to dealers		Increase in service-station price	
	Date	Amount	Date	Amount
		Cents		*Cents*
Maine Turnpike (dual station)	June 11	0.7	June 18	0.7
	June 22	.8	July 1	.8
Elizabeth, N. J	June 15	.5	June 16	.5
	June 22	.8	June 25	1.3
Pennsylvania Turnpike stations (11 stations)	June 15	.6	June 15	1.0
	June 22	.8	June 22	1.0
Baltimore, Md. (2 stations)	June 15	.5	June 16	.5
	June 22	.8	June 22	1.2
Washington, D. C	June 15	.6	June 17	1.0
	June 22	.8	June 22	.9
Richmond, Va	June 15	.6	June 15	.6
	June 22	.8	June 22	.8
			July 9	.8
Charlotte, N. C	June 22	1.1	June 23	1.1
Columbia, S. C	do	.9	June 25	.9
Memphis, Tenn	do	.8	June 24	1.0

Mr. SPRINGER. Did you increase it uniformly across the board?

Mr. BURKS. That I do not know, sir.

Mr. SPRINGER. I believe that is all, Mr. Chairman.

Mr. HESELTON. Mr. Bush, do you have any questions?

Mr. BUSH. Mr. Burks, I believe you stated that you have 24,600 stations selling your product.

Mr. BURKS. Yes, sir.

Mr. BUSH. How many of those stations do you own outright?

Mr. BURKS. Well, sir, I do not know offhand, and I am sorry I do not have that information available, and it is not too big a percentage. I will be glad to get that information for you and supply the committee with that.

Mr. BUSH. Well, these stations that you own and operate, or that you lease, do you charge so much per month in dollars or is it based on a gallonage rental?

Mr. BURKS. Well, sir, I imagine that you have all kinds of variations, and it depends upon the deal which you make with the service-station operator. I cannot tell you all of the ramifications of those lease deals.

There is another thing, too, I would like to say, sir, and that is that there are a lot of stations, a very large number of stations, that sell our products that we neither own nor lease nor lease from another party and lease to the dealer. In other words, there are a lot of independent businessmen who own their own stations and they buy products from us and sell them through their own stations.

Mr. BUSH. I am sure that that is true. But the number of stations that you own, you say the smaller percentage are the ones that are operated selling your gasoline?

Mr. BURKS. I gave you the total number.

Mr. BUSH. Yes, I know that, and could you furnish for the record how many that you own and lease?

Mr. BURKS. Will I furnish for the record the number of stations that we own?

Mr. BUSH. And lease to the service-station dealers?

Mr. BURKS. Yes, sir; I will do that. I will be glad to do that. I am sorry I do not have the information with me.

(The information is as follows:)

Number of company-owned stations leased to dealers: 2,482.

Mr. BUSH. Has not it been generally the practice that there is about a 4-cent margin between tank wagon and retail? I mean, not just now but that has existed from the time of 20 years back or 30 years back?

Mr. BURKS. That has been increasing, and I think the last figure I remember is about 5½ cents. We can go to Admiral Wilson Boulevard, since we seem to have a fairly steady price there among the majors, and that was 26.9, and our tank wagon price is 20.9, so that allows for a 6-cent spread. It used to be 4 cents some years ago, but that has gone up with the decrease in the purchasing power of the dollar.

Mr. BUSH. Well, there seems to be a general feeling that because of these major companies, at least the public feels that they own a great many of these stations in our Nation. And because they do own them and operate them, they control the price. Now, that seems to be the opinion and that was the reason I was asking those questions. I wanted to find out how many stations you really do operate yourself.

Now, the stations that you do lease, is it not a fact that because of fear that they will lose their contracts or because of some other factors that enter into it, that we probably will not be able to find out what it is, these people are subjected, if they sell your gasoline or B gas or C gas, they pretty near must sell it at a certain price?

Mr. BURKS. We do not establish that price, sir.

Mr. BUSH. Well, I appreciate that. I have heard that many, many times here, that you do not establish that price. I can appreciate why you do not. I know why you do not do that. But, nevertheless, it does seem something that is very uniform throughout our Nation. Now, certainly the companies must have some policy of setting it up.

You want good operators. You want a man that will do a good job to sell your product, and you must give him some kind of encouragement there, and by doing that you must tell him about what

he must have, the margin he must have, in order for him to stay in business.

You say that you have 23 stations that operate as training stations. Well, those training stations must be for the fact that you find out there just about how much money or how much margin they must have to operate a good station, one that will be profitable and one that can give good service to the public; is not that right?

Mr. BURKS. Well, sir, we may have our own ideas as to what we would need if we were going to operate the station, and that might be something higher than the dealer has in mind, because we have expenses that perhaps he does not have, but he sets the price at which he sells his product. He takes into account all of the factors that affect him.

Mr. BUSH. I am sure that that is true, and now suppose he cut his price down to where he was not going to be able to pay his rent to you. I do not know if that is on a monetary cash basis or on a gallonage basis.

Mr. BURKS. We will furnish that information, sir.

Mr. BUSH. And suppose he has not made enough money to pay his rent; you would not want that kind of a dealer.

Mr. BURKS. We would not think he would be a very good businessman unless he had to do a thing like that to meet competition which might occur. We have these price wars, sir.

Mr. BUSH. You encourage him to keep in line with what the going prices are?

Mr. BURKS. No, sir; I would not say we encourage him to do that.

Mr. BUSH. Maybe you do not, but your salesmen that contact these people, they do. I happen to know something about this, Mr. Burks, and that is the reason I am pressing this a little bit. I happen to buy 30,000 gallons of gasoline a month myself, and we consume it ourselves, and I do know these salesmen come around—A man, B man, and C man—and they really do put pressure on you and try to keep you in line.

Mr. BURKS. If our employees are putting pressure on the dealer to post a certain price, then they are not acting in accordance with instructions they get from headquarters; I can say that.

Mr. BUSH. That is all, Mr. Chairman.

Mr. BURKS. There is one figure, sir, I may be able to give you now. The total number of company-owned service stations is 2,533, and of those we operate 23 of them. About half of those are training stations; the others are like those on the Pennsylvania Turnpike, where we have a contract with the Pennsylvania Turnpike Commission to operate those stations ourselves. That is why we are there.

Mr. HESELTON. Will you yield on that point?

Mr. BUSH. I yield.

Mr. HESELTON. Do not you operate stations on some of the parkways around New York City?

Mr. BURKS. No, sir, not that I know of. We do not have the New Jersey Turnpike, and we do not have the Merritt Parkway.

Mr. HESELTON. You do not have it on the Merritt Parkway?

Mr. BURKS. No, sir, one of our companies, Kesbec, does have some stations on the roads connecting the Henry Hudson Parkway to the Hutchinson River Parkway.

Mr. HESELTON. You have none on the Maine Turnpike?

Mr. BURKS. We have a station on the Maine Turnpike.

Mr. HESELTON. Is that company owned?

Mr. BURKS. I do not know whether that is or not; I do not know just how that is operated.

Mr. HESELTON. Thank you, Mr. Burks.

Mr. BUSH. You are not able to state here for the record today on the rental of these stations? I wish I could get that from you.

Mr. BURKS We will give it to you, sir.

Mr. BUSH. Whether it is on a gallonage or percentage of business done, or what it is.

Mr. BURKS. We will give you that information; I think it will probably vary from case to case.

Mr. BUSH. Well, if we could have it say for New Jersey and Pennsylvania and the New England States, and Massachusetts, those areas.

Mr. BURKS. My adviser says that there is a great variety in these service station dealer contracts, from flat rent to so much per gallon and sometimes a combination of the two. I suspected that was the case.

Mr. BUSH. I am inclined to agree with you that it is one of those things that is worked out that way.

Mr. BURKS. We will get that information for you.

(The information follows:)

Rental basis for company-owned service stations leased to dealers in indicated areas

	Number on flat rental basis	Number on straight gallonage basis	Number on gallonage with fixed minimum	Number on gallonage with fixed minimum and maximum
Massachusetts	104		88	5
Remainder of northeast	71		96	3
New Jersey	318	1	35	5
Pennsylvania	197		24	8

Mr. HESELTON. Is that all?

Before I ask some questions the chairman wants me to ask in his behalf, I would like to call your attention to a statement that I understand Mr. Otis Ellis, to whom I referred earlier, as the general counsel of the National Oil Jobbers Council, made.

In fairness to him, I think I should say the article itself indicates that he had been invited to testify before this committee. He asked for a delay because of a lack of concrete information that would enable us to make definite and positive conclusions. He felt the situation has not jelled. He had this to say earlier, and from its contents I assume it was after the price increase:

The whole situation is enough to make an economist throw his textbooks out of the window. Here we sit with excess stocks of crude oil and according to some, the country is being further flooded with imported crude. Yet, in the

face of such a situation, this overly abundant commodity is made the subject of a price increase.

The situation on products stocks is comparable, and yet by some strange manner, contrary to normal economics, the price increases of these two products go into effect.

I hope Mr. Ellis will feel that the testimony that has come in so far will make it possible to give us the benefit of his final conclusions, but I did want that in the record at this point.

Now, I have also before me a tabulation based on an Oklahoma (group 3) tank-car prices, intended to show how crude hikes changed product prices in 1946 and 1947. The first crude price increase was April 1, 1946, up 10 cents to $1.27; and July 25, up to $1.52; and November 13, up to $1.62; and March 10, 1947, up to $1.87; and October 15, 1947, up to $2.07; and December 6 of that same year, up 50 cents to $2.57. And in the same period, while they do not, as I understand it, in each instance go up, the price of regular gasoline started off at 5 and wound up at 10; and the price of kerosene started off at 4.875 and wound up at 9.875; and No. 2 fuel started off at 4.125 and wound up at 9.25.

No. 6 fuel started off at 1.11 and wound up at $2.75. So that in that period, with these 6 crude oil price increases, the product increase was a little over 100 percent. The product increase followed at about 100 percent in each instance.

Now, with that in mind, No. 1, do you anticipate further price increases?

Mr. BURKS. You mean product price increases?

Mr. HESELTON. Product price increases, yes.

Mr. BURKS. I will say this, Mr. Heselton, that we have not recovered in product prices the effect of the crude price increase incurred. I am speaking of the last one.

Now, prior to that, we were endeavoring to improve our earnings picture, and we are very much dissatisfied with the results so far. Naturally we will be endeavoring to find some way to certainly not lose money as a result of the increase in crude price and the subsequent increase in product prices.

Mr. HESELTON. Well, am I to understand by that, because you have not recaptured what you say are the increased costs, although you cannot give us the amount of the increased costs—and that, of course, leaves us in a rather uncertain position—we can probably anticipate there will be further price increases?

Mr. BURKS. I think that is a reasonable speculation, and I do not know just when the market will stand it. But certainly speaking for my company, we are not making the money we need to make to carry on our job. We feel our primary responsibility is to supply products to our customers when they need it.

Mr. HESELTON. And you say that you feel that that is your primary responsibility? Where do you place your responsibility to the ultimate consumer of your product in terms of price? Is that subordinate to your so-called primary responsibility?

Mr. BURKS. I should have said, also, at reasonable prices.

Mr. HESELTON. At reasonable prices?

Mr. BURKS. Yes, and we think that when our raw material costs go up, we have no alternative but to recover that unless prior to that

time we are making excessive earnings; and that certainly was not the case in our company.

Mr. HESELTON. Well, is it fair to say that you feel that until you reach the earnings position you had in 1950, you do not anticipate that there will be any cessation of price increases?

Mr. BURKS. I would say this, sir, that as long as we are having each year to spend very large sums of money in order to keep up with the demand, that we are going to do everything we can to get a reasonable return on that investment, and to put ourselves in a position to replace our facilities and to expand our facilities as our consumers' demand indicates we need to do.

Mr. HESELTON. Even though that has resulted, unless there is some change, in adding half a billion dollars to the cost of living in this country, as of now? Would not that deter you? And I do not mean you individually, but would not that deter your company from adding another half billion dollars or another billion dollars, so long as you had not reached the desired earning capacity?

Mr. BURKS. No, sir; the half billion dollars was equivalent to 25 cents a barrel of crude.

Mr. HESELTON. That is right.

Mr. BURKS. Now, we have not gotten that yet, and we endeavored to pass on that crude price increase in as equitable a manner as we could. In our best judgment, we did that. That did not hold up, because other people were willing to sell distillate oils for less. Now, we are in a position where we have not recovered that cost, and over the long period, the cost of a product has to determine its price.

Mr. HESELTON. In terms of where you passed it on, there are some interesting comments in this same issue of the National Petroleum News from the east coast. This is from an association release, the Pennsylvania Petroleum Association:

> The big increases in prices of gasoline, fuel oil, and kerosene announced this week in Pennsylvania by the producing and refining companies, because of increased operating costs, are being passed on to the public mainly through various independent marketers or jobbers. None of these, based on the best available information, have received any distributing benefits, in spite of the fact that their own costs of operation have continued to mount month after month.

New Jersey Gasoline Retailers Association said the situation in New Jersey is "a total mess." In Massachusetts a jobber said:

> The heating-oil increase is justified to some extent, but the gasoline increase knocked us for a loop. We are now operating on 10 points less margin than we did last summer and in some areas 20 points less than last year. We have had no margin increase, nor do we expect to get any.

A jobber in Portland, Maine, said he takes a "very dim view of the whole situation, and the general public reaction is not good either."

Grumbling in and around Philadelphia:

> Philadelphia motorists did not take kindly to the two price increases, coming only a week apart. "They grumbled that we ganged up on them," reported one jobber. "Everybody's in a defensive mood and it's done a lot of damage."

That is not a comprehensive survey, but I do not think it is a slanted one, and I think it is an objective piece of reporting and an effort to find out what the reaction was. I must say that I do not think that the explanations that have been given are likely to satisfy that reaction.

These are questions that Mr. Wolverton wanted to ask you, and I may have to revise it a bit in terms of explaining for the record that he is asking questions, and I am not, but I want to ask these questions one by one. He requested me to do so.

Incidentally, some of this may be, in part, repetitious, but I think that you can give a brief answer wherever there is repetition.

Mr. Burks, will you give for the record the final distribution as among dealers, jobbers, and refiners, of the two price increases in product which you put into effect last June?

Mr. BURKS. I do not know that I quite understand that question. Would you mind repeating that, Mr. Heselton?

Mr. HESELTON. Well, I assume what is meant is that as far as refiners at one stage, and as far as jobbers at a second stage, and as far as dealers at the third stage, are concerned, each of them following your price increases, posted increases, average increases. Now, what is wanted for the record is to find out what the distribution of the increase was among those three categories.

Mr. BURKS. Well, our increases in price to the dealers were all for their account. In other words, we increased our gasoline price to our dealers by the amount of the increase we announced.

Mr. HESELTON. Let us go at it another way and see if we can get it.

How much on the average did the refiners' charge go up, after your total increase?

Mr. BURKS. After our total increases, you mean?

Mr. HESELTON. Yes.

Mr. BURKS. The refiners, as far as our company is concerned, received essentially all of the second price increase. They increased the price of gasoline at the wholesale level seventy-five one-hundredths of a cent, or three-quarters of a cent a gallon. They increased distillate prices five-eighths of a cent a gallon, and they increased residual fuel oil prices in the United States Gulf 25 cents a barrel. Along the eastern seaboard, it was 15 cents a barrel.

Mr. HESELTON. What about the jobbers?

Mr. BURKS. As far as the jobbers are concerned, the gasoline jobbers, we have adjusted the prices at which we sell to a number of our jobbers so that they have an increased margin. In other cases we have not made any adjustments.

Mr. HESELTON. Were there more cases where there were adjustments than those where there were not?

Mr. BURKS. No, sir; the number of cases where there were adjustments was less than the number of cases where they have so far not been made.

Mr. HESELTON. Can you make any rough estimate of the percentages of those who received no adjustment as against those who did?

Mr. BURKS. I think so far it is approximately one-quarter of our jobbers that have received adjustments and about three-quarters have not.

Mr. HESELTON. And then as to the dealers, except for your company-owned stations, if I understand it correctly, you still insist that they are independent businessmen who fix their own prices at what in their judgment is the proper level.

Mr. BURKS. Yes, sir. Now, as far as the distributors are concerned, they are, too; but, of course, if they have to compete with us when we

are selling to a dealer or if they are competing with another major selling to a dealer, why, I would doubt that they could very long get more than the major's price.

Mr. HESELTON. You have been with the company a number of years, I understand.

Mr. BURKS. Yes, sir.

Mr. HESELTON. In your experience, have you ever known any dealer to hold out for any length of time where there has been an increase posted before he went up himself?

Mr. BURKS. I do not know about that, Mr. Heselton. I did not have my experience in the marketing department.

Mr. HESELTON. All right. Now, this next question is in three parts, and perhaps I had better read it all and then let you break it down as you choose.

Who absorbs your reduction of three-tenths of a cent per gallon in distillates—the dealer, the jobber, or the refiner, or all of them? Where does this leave the person who absorbs it; that is, where is his margin as compared with what it was before you made any of these increases in June?

Mr. BURKS. The decrease in our prices was $^{35}/_{100}$ of a cent a gallon at the wholesale level and $^{3}/_{10}$ of a cent a gallon at the retail level. The refiner absorbs the whole 35 points. There was an increase of $^{5}/_{100}$ of a cent a gallon for the retailer.

Mr. HESELTON. When you say "retailer," you mean the jobber and the dealer?

Mr. BURKS. In the case of distillates, I think we called them jobbers or peddlers, or they are different categories.

Mr. HESELTON. This is the third question; I think you have partially answered this, but will you concisely repeat your answer? It is also very interesting to our chairman to note that on July 2, the day after these hearings commenced, you reduced your prices on distillates. Will you again tell us why? On page 6 of your prepared statement you say:

> It is interesting to note that our increase in prices of kerosene and domestic heating oil and diesel fuel lasted exactly 10 days. On Thursday of last week, July 2, after reviewing the competitive market situation, we reduced our prices for these products by amounts averaging from $^{3}/_{10}$ of a cent to $^{35}/_{100}$ of a cent.

Mr. BURKS. The reason we did that was because of competition. Some of our competitors were willing to sell heating oils at below the price we had posted. We did not want to lose a substantial part of our distillate business, and so we reduced our price to be competitive.

Mr. HESELTON. Mr. Burks, in view of your statement as to the reasons why you reduced these prices, would you explain to us just why you put them up in the first place?

Mr. BURKS. The reason we put them up, sir, was to recover the increase in cost of crude, almost all of it. We were in no position to absorb the effect of something that increased our costs $72 million a year.

Mr. HESELTON. Before asking this next question, what actually happened? Were there some of the companies that stayed at their low prices without moving at all, or did some of them come up part way?

Mr. BURKS. One company we know about stayed at its old price. As far as we know they have not changed it at all, and other companies have vacillated a little bit, coming up and then going back.

Mr. HESELTON. They did not get in line quickly enough?

Mr. BURKS. They did not interpret the market as we did, sir; I will put it that way. We don't quite understand, Mr. Heselton, when something increases our costs $72 million a year, why we shouldn't endeavor to get that money back if we are not making an excessive return at the start. And we certainly were not.

Mr. HESELTON. Well, of course, what we have been trying to get at for some time here is what are those increased costs; and when you come to us and say you cannot tell us, and yet you say that is the foundation upon which you justify the increases, we are completely in the dark.

Mr. BURKS. We gave you information concerning what percentages a number of our major cost items had increased.

Mr. HESELTON. You gave us a few items.

Mr. BURKS. Yes, sir; and we also showed you that we were making less money in toto than we were 3 years ago, in spite of the fact that we have got a lot more money invested.

Mr. HESELTON. You see, one of the things that puzzles some of us, anyway, is that when we begin to press you on the fact that you do not have the costs and cannot tell us the costs on which you base your justification, you promptly—and I do not say you alone, because it is true of all others that have appeared before us—but you promptly shift your grounds to earnings; or, as one company did, when they got themselves stuck a bit on lack of increased drillings, and it was brought out the drillings were higher than they had ever been, then they promptly returned back to the earnings.

Now, earnings can be a very relative thing, and I think that you will agree with that. Certainly the purchasing power of your dollar that you take in on your sales, and of the dollar you pass over to your shareholders, and the dollar you use to increase your plant equipment, has gone down steadily for the last few years.

Mr. BURKS. That is right.

Mr. HESELTON. If that purchasing power can be stabilized, and then can be gradually increased, you are going to have a very much better position and, at least speaking for myself, when you come in and say that you do not see why you should be criticized for having tried to get your earnings position back to a condition that satisfies you, I do not think anybody can challenge that in a vacuum. But I think that certainly there are reasons to wonder whether your timing, in terms of what I placed in the record, company after company after company said that, "This is the administration we have been hoping for, and it is the administration that is fair toward business, that wants a good business atmosphere; we can live with it. But we have, in turn, responsibilities, and big ones."

Now, when an opportunity seems to be seized when a little restraint and a little living with what had gone on fairly satisfactorily for some 5 or 6 years was involved, surely it is open to some people to wonder why you were willing to run the risk of dealing a serious blow to the administration's efforts.

That is why I say this is a challenge to you, and I think we have a right to say that.

Mr. BURKS. Mr. Heselton, may I comment on that?

Mr. HESELTON. Surely.

Mr. BURKS. As I pointed out to Mr. Springer, it is impossible for us to tell you what is the cost of any product that we make. We are in one of these multiple-product industries where there is no acceptable method for determining a cost. The only thing we can do that is accurate is to say that we made so many dollars. Our dollar income—our net profit—was going down, and our investment which we had tied up in the business was going up. Since July 1950, we had made no increases in price of gasoline, and in spite of our investments and in spite of our best efforts to increase our efficiency, we were losing ground, and we were making less and less money.

We feel that we have held the line over the last 3 years, and it was high time that we did get back some of these increased costs which had resulted in this decrease in income.

That is the reason we did it, and it was our best judgment that we should have done it.

Mr. HESELTON. I do not know what the situation is in comparable segments of our national economy, and I do not know whether somewhat the same situation may not prevail in food industries, and may not prevail in the clothing industry, and may not prevail in a dozen other categories that go toward making up the major part of the cost of living. But certainly if that is so, and if your leadership in this matter—and I mean your industry leadership—is followed by other similar increases across the board, all the administration's efforts will simply be of no avail. You have just succeeded in dynamiting what was started out to be, and what I still think is, a very promising program on the part of the national administration that has not had a chance to get going yet.

I suppose I ought to cease fire on my own personal ideas here, and carry through with Mr. Wolverton's questions.

Mr. BURKS. I would just like to say again, in connection with that half-a-billion-dollar figure, I think that that ought to be interpreted in the light of total consumer expenditures, which during the first quarter of this year were about $226 billion, and in the second quarter were about $228 billion, and so even half a billion is not a very big contribution in a figure of that size.

As far as the individual is concerned, it is quite small. The effect of the gasoline price, if the service-station dealer just passed it through, was about 73 cents a month.

Now, I don't know. It seems to me that a lot of people spend 73 cents a month and don't think too much about it.

Mr. HESELTON. Well, maybe some of those people are wondering whether you are going to have a pattern of six price increases and 100-percent increase in the price in a little over April 1, 1946, to December of this year, in less than 2 years.

Mr. BURKS. You could go back almost to the beginning of the war with that, too, because as you know, during the war you had price control, and the oil industry did not increase its crude prices—that is, to the best of my knowledge. Maybe 10 cents a barrel, but I don't think even that.

Mr. HESELTON. This is the fifth question, and you have in mind the question I asked you about who went up, and so on. Did you reduce these prices by about half of what you put them up to in the first place, in the hope that the companies which had not gone up along

with you would now meet you halfway? Just what companies did not go up after you did?

Mr. BURKS. Just what companies did not go up?

Mr. HESELTON. Perhaps the best way to get an answer to the question is to ask you to give us the companies that did not go up.

Mr. BURKS. I have been away since last Monday, and I have not been back to the office except on Friday, and the only company that I know of that did not go up was the Sun Oil Co.

Mr. HESELTON. Do they have a large market in that area?

Mr. BURKS. I don't know the extent of their heating oil and distillate outlet, and I have the impression it is relatively not a big part of their business, but I am not sure of that.

Mr. HESELTON. Do you want to take the first part of the question: Did you reduce them, the prices, about half of what you put them up to in the first place, in the hope that companies that had not gone along up with you would now meet you halfway?

Mr. BURKS. We reduced it to that extent because we figured that that was our interpretation of the market at that time. Now, maybe we were wrong. Maybe we reduced it too much. Maybe we didn't reduce it enough. Only time will tell on that, Mr. Heselton.

Mr. HESELTON. Only time will tell?

Mr. BURKS. Yes; and competitive forces will tell.

Mr. HESELTON. I realize that, but I think the chairman wanted to know if you just had a sort of glimmering hope that maybe they would adjust themselves up to the levels that you thought were economic.

Mr. BURKS. No, sir; we thought in the first place that the increase of 0.6 cent a gallon was a fair apportionment of the crude-cost increase for the distillate consumer to pay. Now, the rest of the industry didn't think that. Certain of them certainly didn't, and our marketers indicated they were losing business and they thought we ought to go down.

We agreed with them. So that the price reductions you mentioned were put into effect.

Mr. HESELTON. I am a little bit confused by what you have just said. I thought you intended us to understand that it was only a minor portion of the industry that did not go along with you in your two increases.

Mr. BURKS. In our two increases?

Mr. HESELTON. In your increases.

Mr. BURKS. You asked me whether or not there was any company that had not moved at all.

Mr. HESELTON. You mentioned one company.

Mr. BURKS. Yes.

Mr. HESELTON. And you said they were not particularly important.

Mr. BURKS. There may have been others that I don't know about. I know in New York Harbor, the competition was at a lower price level than the level we posted.

Mr. HESELTON. Well, is it not a fact that after having followed the lead of Socony, going up to 0.6 cent on an average, you took the lead coming down?

Mr. BURKS. No, sir. We increased before Socony did on that heating-oil increase of 0.6 cent.

Mr. HESELTON. All right, then, having taken the lead going up, you took the lead coming down?

Mr. BURKS. Because we found it didn't stick.

We were going to lose heating-oil business, which we didn't want to lose.

Mr. HESELTON. Did you not say that only one other company did not go up?

Mr. BURKS. No, sir. I say I knew one company that did not go up, and I don't know whether there were others or not. I haven't been in intimate touch with this due to the fact that I have been down here.

Mr. HESELTON. Yes, but did you not have sufficient information to know that there were at least 5 or 6 of the companies that did come up?

Mr. BURKS. Some companies did come up, and how many came up——

Mr. HESELTON. I have a list of the companies that went up.

Mr. BURKS. Maybe I have some information on that.

Mr. HESELTON. This may help you. This is the Oil Daily, which said that it was first attributed to Esso; and that Sinclair, Texas, Shell, and Hartol Petroleum Co. have already met the increases, and others are expected to follow shortly.

That was on June 23. Certainly that would seem to cover quite a large group, volumewise, of the suppliers to the northeast coast. Would that be true?

Mr. BURKS. Yes, sir, but you don't need many competitors to not come up before you have to come down; that is, if you want to hold your business.

Mr. HESELTON. As to the 3/10 to 35/100 cent reduction, what were the areas where you put this into effect? Did you then or subsequently follow some other company in the other areas where you market, in putting the same reduction into effect? If so, what company or companies were they?

Mr. BURKS. We put that into effect without regard to any other company.

Mr. HESELTON. In New York and New England?

Mr. BURKS. Without regard to any other company, and as I remember it, it was applicable quite generally throughout the area in which we market, certainly along the eastern seaboard.

Mr. HESELTON. Which is 18 States along the Northeast and the District of Columbia.

Mr. BURKS. I am not absolutely certain as to what happened in Louisiana, the amount of distillate down there, and stations along the pipeline. But it was quite generally applied.

Mr. HESELTON. I do not know that you have answered the second question here. Perhaps you have. Did you then or subsequently follow some other companies in the other areas where you marketed in putting the same reduction into effect?

Mr. BURKS. No, sir; we did it all at one time, to the best of my knowledge.

Mr. HESELTON. Following this July 2 reduction of 0.3 or 0.35 cent, have you now made a further reduction of 0.3 cent, or thereabouts, in all areas?

Mr. BURKS. Another competitor reduced the price on a temporary basis a quarter of a cent a gallon, and I think in Pennsylvania and Delaware, and we met that.

Mr. HESELTON. The next question is: Just what areas are there? And it was Pennsylvania and Delaware; is that right?

Mr. BURKS. That is correct; yes, sir.

Mr. HESELTON. In making the further reduction, did you initiate this, or did you follow the lead of some other company?

I think you have answered that. You followed the lead of another company.

Mr. BURKS. Yes, sir.

Mr. HESELTON. What company or companies in the area where you did this are there?

Mr. BURKS. We followed Atlantic Refining Co.

Mr. HESELTON. In such areas, where does that leave the consumer? Is he at the present time in the same position he was before you made the initial 0.6 cent increase.

Mr. BURKS. I think he is very close to it, sir. He may be 0.5 cent a gallon different, but I think he is probably at the same price.

Mr. HESELTON. Is that 0.05 cent below or above the old price?

Mr. BURKS. It is either at the same price or 0.05 cent above.

Mr. HESELTON. In such areas, where does that leave the dealer, jobber, or refiner who has absorbed the total reduction, and by how much?

Mr. BURKS. In our case the refiner will be absorbing the total reduction.

Mr. HESELTON. In view of your statement as to the need to make the June increase in price having been based upon increased costs you had, will you explain just what happened to your costs between June and July which caused you to decrease the price of domestic heating oils, or did costs have nothing to do with it?

Mr. BURKS. The costs have nothing to do with it. It was competition.

Mr. HESELTON. I think that I have in effect asked you this question, but the chairman wanted me to be sure to get these questions and answers in the record. How long do you expect the current price to continue? Will you try again later to put it up?

Mr. BURKS. I have no idea, sir, how long the present price will continue. We will have to watch that situation and see what develops.

Mr. HESELTON. Do you want to answer the second question? Will you try again later to put it up?

Mr. BURKS. Well, sir, the relationship between raw material costs and distillate prices is certainly not normal, in our judgment, at the present time. In other words, you have had an increase in the cost of crude of 25 cents a barrel, with substantially no increases in some places in distillate prices; and other places you have had an increase of maybe a quarter to 0.3 cent.

Mr. HESELTON. Are you a lawyer?

Mr. BURKS. No, sir.

Mr. HESELTON. Well, I do not want to take advantage of you, but in law we have such a situation known as a hostile witness, and once he gets hostile we get the court to let us cross-examine him.

I am not putting you in the category of a hostile witness, but I will say you are quite a reluctant dragon.

Mr. BURKS. I don't know the answer to some of these questions.

Mr. HESELTON. We have got to watch our step. Prices are probably going up as soon as the heat is off.

Mr. BURKS. No, sir; I didn't say that.

Mr. HESELTON. I know you did not say it.

Mr. BURKS. I feel this, though, that the refiner is in a position where he is worse off than he was before the crude price increase; and we certainly, speaking for Esso Standard, were not making too much money in refining prior to the crude price increase.

Mr. HESELTON. Will you tell us just who is receiving the higher price for crude oil which you say has so increased your costs that you had to raise products prices last June? Do you not buy most of it from Jersey companies? At page 5 and the top of page 6 of your statement you said, "We could not afford to absorb this additional cost to us of this crude, which we calculated would amount to an additional $72 million per year."

Now, as Mr. Wolverton calculates it, $72 million at an average price of 25 cents per barrel amounts to some 800,000 barrels a day. Do you mean that Esso Standard purchases 800,000 barrels of crude a day from nonaffiliated companies?

Mr. BURKS. No, sir. We purchase about 275,000 barrels a day from nonaffiliated companies.

Mr. HESELTON. And the balance of 525,000 from affiliated companies, is that right?

Mr. BURKS. Yes, sir. Esso Standard doesn't purchase all of that crude. Our own refineries run about 506,000. That is what we ran last year, that is per day. We have product purchase arrangements with some of our affiliates under which we pay for the products, the cost of crude and all other costs, plus a return on all of the money involved, and so on.

Mr. HESELTON. Except for the latter part of these next two questions, I think that you probably have gotten the answer in the record as you want it.

Just how much crude do you purchase from companies not affiliated with you?

Mr. BURKS. 275,000 barrels a day, approximately.

Mr. HESELTON. As to products, too, when you buy, how much do you buy from nonaffiliated companies? You have explained that, I take it, in your previous answer.

Mr. BURKS. Well, we purchase products from nonaffiliated companies, and I suppose on the average it runs somewhere around 15 or 20 million barrels a year.

Mr. HESELTON. In connection with your purchases, it might be well for you to indicate how much crude oil and how much products you purchase from Humble Oil & Refining Co., an affiliated company about which we had testimony as to its earnings last week.

Mr. BURKS. May I submit those figures, sir, as to how much we purchase from Humble—how much in the way of crude and how much in the way of products we purchase from Humble. I don't have those figures at hand.

(The information follows:)

Esso Standard Oil Co. purchased from Humble Oil & Refining Co. during 1952 a daily average of 188,384 barrels of crude oil and 210,516 barrels of petroleum products.

Mr. HESELTON. I think that I should put in certain excerpts from the testimony of Mr. Rathbone before the Senate Small Business Committee in 1947. Senator Ives asked:

The majority of the stock of that company—

referring to Humble Oil & Refining Co.—

is owned by Standard Oil (New Jersey), the parent company?

Mr. RATHBONE. As I understand it, I think about 73 percent of the Humble Oil Co. stock is owned by the parent company; but it is independently managed by the people in Texas who run it.

* * * * * * *

The CHAIRMAN. What do you pay the Humble Oil Co. now, 8 or 9 cents?

Mr. RATHBONE. Neither one.

The CHAIRMAN. You have another deal.

Mr. RATHBONE. We have a 15-year contract with them—

that was back in 1947—

that dates back quite a few years. I think it has about 7 years to run. Under it, we buy products from them on the basis of cost of manufacture, plus a predetermined rate of profit. That applies today.

The CHAIRMAN. You mean that is a processing proposition.

Mr. RATHBONE. Well, no; it is not a processing proposition, it is simply a product-purchase contract, and the price of the product is determined by the cost of manufacture plus a predetermined rate of profit.

The CHAIRMAN. About what does that make the cost of the product on the basis you are operating today?

Mr. RATHBONE. I would say that the cost of gasoline under that contract today, and I have to guess now, since I do not have the figures exactly, is probably around 8⅛ to 8¼ cents.

In your purchases of a product from affiliated companies, do you pay at public prices or under special contract?

Mr. BURKS. We have a special contract with Humble. That is our largest source of products other than from our refineries.

Mr. HESELTON. In your purchases of products from nonaffiliated refiners, do you pay public prices or special prices contained in processing agreements?

Mr. BURKS. We don't have any processing agreements, but we do have some contracts under which we get products at a price which is related to the market generally, but has a floor and a ceiling which is related to crude cost.

Mr. HESELTON. Are they standard contracts for all such nonaffiliates?

Mr. BURKS. No, sir; this is just Esso Standard I am speaking of. As far as I know, we have only one such contract.

Mr. HESELTON. Perhaps you misunderstood me. I meant are they a standard contract for everyone that is nonaffiliated?

Mr. BURKS. That is a contract specifically negotiated with this refiner.

Mr. HESELTON. Are you referring to just one refiner?

Mr. BURKS. Yes, sir.

Mr. HESELTON. So that there is only one?

Mr. BURKS. When we need it, we buy in the spot market.

Mr. HESELTON. That does not bulk very large in your total?

Mr. BURKS. That is no special contract. We just find out what we can buy a cargo or two cargoes, or so forth, at.

Mr. HESELTON. Who is the single nonaffiliate that you buy from?

Mr. BURKS. Taylor Refining.

Mr. HESELTON. That is located in this country?

Mr. BURKS. Yes, sir.

Mr. HESELTON. What happens to the independent refiner when you reduce prices on distillates as you did in the past few days?

Mr. BURKS. His price is determined under the contract, and we have that contract with him, and we do not post at the cargo level in the gulf. We have no posted price there. So anything we do doesn't affect his price.

Mr. HESELTON. In June when you determined on raising the price of oil products, because of your calculations that the price of the crude would be $72 million higher to you on an annual bassis, had the price of the crude you buy from Venezuela then gone up?

Mr. BURKS. I don't know whether it had or not, as of that time. If it hadn't, it subsequently did.

Mr. HESELTON. Is that Creole?

Mr. BURKS. We buy some crude from International.

Mr. HESELTON. I think I read recently that Creole went up the latter part of the month. I may be in error on that, but I think it was after that price increase in this country that it went up.

Mr. BURKS. I don't recall the exact date that Creole increased.

Mr. HESELTON. You have heard the chairman's questions of Mr. Willetts as to the price of heating oils on the east coast, and the request for increased price last year to meet the higher cost of tanker transportation. Have you at any time this past spring reduced heating-oil prices to reflect lower tanker rates?

Mr. BURKS. I have a prepared answer for that, which I would like to read.

Mr. HESELTON. All right.

Mr. BURKS. A year ago a price increase for heating oil on the eastern seaboard was needed because of high tanker rates, among other things. The increased price granted by OPS at that time made provision for ocean freight rates only slightly in excess of USMC rates, although the actual freight rates were substantially above that level. Esso Standard's present heating-oil price provides for a transportation factor equal to the USMC rate minus 30 percent, which is approximately the current market for clean tonnage. This heating-oil price may therefore be said to reflect fully the current depressed tanker rates.

Now, that is the price at which we sell today.

Mr. HESELTON. Well, I suppose the direct answer, for the record, should be that you have not reduced your heating-oil prices during this last spring.

Mr. BURKS. During the summertime, we did; yes, sir.

Mr. HESELTON. Except for the summer discount.

Mr. BURKS. That is right, but that takes into account or that is the price that we get for it today, while we have these low tanker rates.

Mr. HESELTON. But, of course, your summer discount is in part, at least, an effort to prevent the recurrence of what we had in 1947 and 1948, and that is by filling up all available storage during the off season, it gives you a backlog that eases the pressure on you if we come down into a cold winter.

Mr. BURKS. That is correct.

Mr. HESELTON. Now, Mr. Eugene Holman, president of the Standard Oil of New Jersey, was invited to attend the hearings and explain

the price increases put into effect on June 22, following the crude-oil advance of June 15. Mr. Holman replied by designating you, Mr. Burks, executive vice president of Standard's subsidiary covering the eastern seaboard.

In acknowledging Mr. Burks' coming, Mr. Holman was advised that the chairman assumed that Mr. Burks also would be prepared to answer, on Mr. Holman's behalf, the 17 questions he asked when the hearings began on July 1.

Mr. Burks, there are some questions of the list of 17 which the chairman asked, which have not been answered by the Humble Oil & Refining Co. He does not know whether the answers which were submitted are given in behalf of Mr. Holman or not.

At any rate, there are some which have not been answered at all. He refers particularly to items 13 through 17, and I think that that is inclusive. Are you prepared to answer them for Standard Oil Co. of New Jersey, or who will speak for your company or Mr. Holman?

Mr. BURKS. Well, sir, I am speaking for Esso Standard Oil Co. and myself. Now, the answer to question 13—the question is: "Why has California, a traditionally large supplier of oil, been forced to import oil from other areas to supply west coast consumers, and to increase prices, reportedly to meet the higher costs of such imports?"

And my answer to that, sir, would be that I do not feel qualified to answer this question since my company does not operate in California.

Mr. HESELTON. That is basically the same answer as given by Mr. Baker, so apparently the committee will have to look for some other witness to answer that question.

What about 14?

Mr. BURKS. That is: "Will the increased prices of crude in this country now be met by greater imports from Venezuela, the Middle East, or elsewhere, because crude-oil prices there are lower, or will prices there be increased so this will not follow?"

My answer to that would be that crude-oil prices have been increased in Venezuela to levels comparable with the new United States Gulf prices, which leaves the relationship of these two areas unchanged. At least one Middle East producer is reported to have increased crude prices. It is impossible to tell at this time what the final developments will be in this direction.

Mr. HESELTON. Now, you have referred only to Venezuela, and not to the Middle East or elsewhere. I take it that you take the same position you did in the case of the California situation.

Mr. BURKS. We are now buying no crude from the Middle East, and although one company out there is reported to have increased crude prices, I don't know what is going to be the ultimate outcome.

That is a very complicated situation, I understand, and I am just not familiar enough with the facts to answer the question.

Mr. HESELTON. Has your attention been called to an article by Mr. Samuel Nakasian, entitled "Security of Foreign Petroleum Resources," published in the June issue of the Political Science Quarterly?

Mr. BURKS. No, sir; I haven't seen that.

Mr. HESELTON. In direct connection with your answer, I think this portion might go in the record:

> The development and present composition of the international oil industry could have been achieved only with the direct participation and encouragement of the American, British, and Dutch Governments. Today, by their exclusive

long-term concessions, seven corporate systems own practically all production rights, outside North America, to the most profitable oil-bearing formations of the free world. These systems comprise the five American companies of Standard Oil Co., Socony-Vacuum, Gulf, Standard of California, and the Texas Co. and the two British companies, Royal Dutch Shell and Anglo-Iranian. Through a process of rational development, each of the seven corporate systems by vertical integration has brought under central management all petroleum operations; crude production, refining, transportation, and marketing. Non-integrated independent refining companies rely upon these seven systems for crude supplies, as do independent marketing companies requiring bulk refined products. The seven organizations operate generally throughout the world and usually are affected by the same conditions. Therefore, one should reasonably expect to find a related policy with respect to the planning of crude-oil production and refining, a similar worldwide pricing practice, and a comparable royalty or profit-sharing system for each of the producing countries.

That is rather significant.

Now as to question No. 15.

Mr. BURKS. That one pertains to the new foreign voluntary agreement?

Mr. HESELTON. Yes.

Mr. BURKS. Our answer, sir, is this:

Esso Standard is a domestic operating company and does not come under the new foreign voluntary agreement referred to. I understand that the agreement is designed to deal with shortages and in the absence of a declaration of emergency, is merely a source of statistical information for PAD. It was sponsored by PAD and has the approval of the Department of Justice.

Mr. HESELTON. That approval got pushed around quite a bit last year, did it not?

Mr. BURKS. I am not too familiar with that, Mr. Heselton. My field is the domestic operations.

Mr. HESELTON. I can tell you that there is evidence before the committee that it got slightly dislodged at one stage of the game.

Then on question No. 16.

Mr. BURKS. That one is: "Do the increased prices of gasoline and fuel oil merely represent a foretaste of the higher prices which the major oil companies have intimated would follow the enactment of any policy to restrict imports?"

As indicated in my statement, none of the increases in prices made by Esso Standard had any connection with imports.

Mr. HESELTON. Then I think question No. 17 was asked.

Mr. BURKS. It says: "Or are the higher prices for crude oil the result of some understanding reached to avoid enactment of a policy restricting imports?"

Esso Standard knows of no understanding with respect to crude-oil prices.

Mr. HESELTON. Now I understand that you have answers, prepared answers, to the rest of the questions, on behalf of Esso.

Mr. BURKS. Yes, sir.

Mr. HESELTON. In view of the hour—certainly I want you to have full opportunity to read them all—you will have the right to have them all inserted in the record, and possibly you want to call attention to 1 or 2 major points at this time.

Mr. BURKS. No, sir. In order to save the time of the committee, my answers have been made as brief as possible, and I was going to

offer to supplement them if the committee so desired, but it is agreeable to me to have them inserted in the record.

Mr. HESELTON. You have the answers there?

Mr. BURKS. Yes, sir.

Mr. HESELTON. Have you extra copies?

Mr. BURKS. I am quite sure we do. I have only one copy here, but I am quite sure we have another copy.

Mr. HESELTON. Suppose you give that to Dr. Stevenson, and they can run their eye over it quickly and see if there is something that should be asked of you.

I would like to ask you one specific question, and then ask you a rather general question.

Your prepared answers may be inserted in the record at this point.

(The prepared answers of Mr. Burks follow:)

ANSWERS OF H. G. BURKS, JR., TO THE 17 QUESTIONS ASKED BY CHAIRMAN WOLVERTON

In order to save the time of the committee, these answers have been made as brief as possible. I will be glad to supplement them if the committee so desires.

(1) The increased product prices reflect the operation of normal market factors which always influence price. As I pointed out in my prepared statement, while demand and supply are important factors, the recovery of increased costs is necessary on a long-range basis, subject always to the limiting effect of competition.

(2) I should like to read a part of the statement of Mr. M. J. Rathbone made at Casper, Wyo., to which reference is made in the question: "Deeper drilling, higher drilling costs, less first-class drilling prospects, all these and other things are contributing to the domestic producers economic problem and imports have little to do with it, unless we assume that we want to use up our 'reserve potential.' The cost of carrying this reserve is very real and quite a sizable item, and at some time will have to be compensated for in the crude price, as will also the higher drilling and operating costs experienced in recent years. Such adjustments will undoubtedly come in due course."

I see no reason to interpret that statement as an invitation to anyone to start price increases. It was an expression of opinion based on facts widely recorded in the industry and which had been the subject of comment by many others.

(3) Speaking for Esso Standard, I have tried to explain in detail in my initial statement the reasons which motivated my company in making increases in crude as well as product prices. These actions were definitely an expression of free competition.

(4) Esso Standard did not initiate the increase in the price of crude oil.

(5) The charts which I have presented show, I believe, that the stock levels of crude oil and products resulting from the current rate of crude production and refinery runs are not high in relation to demand.

(6) The heating oil price increase provides a good illustration of pricing in a competitive market. We attempted to recover a proportionate part of our increased cost of crude, by an increase in our heating oil price. The market did not support our judgment as to price, and the price of heating oil has declined. It is still uncertain what the eventual market price will be.

(7) Esso Standard does not have any such policy. There is no evidence of inability on the part of the industry to meet presently indicated heating oil demand.

(8) Not insofar as Esso Standard is concerned, since we have been able to obtain our current needs of crude oil.

(9) Esso Standard does not make nominations to the Texas Railroad Commission and is not familiar with the subject matter of this question. Other witnesses who are better informed have commented on it.

(10) This question was answered in my original statement where I pointed out that the declining-earnings position of Esso Standard indicated to us the need for price increases on our products.

(11) Esso Standard is not a producer of crude oil. This question has been discussed by producers who have appeared before this committee and who are better qualified to give an answer.

(12) A year ago a price increase for heating oil on the eastern seaboard was needed because of high tanker rates, among other things. The increased price granted by OPS at that time made provision for ocean freight rates only slightly in excess of USMC rates, although the actual freight rates were substantially above that level. Esso Standard's present heating-oil price provides for a transportation factor equal to the USMC rate minus 30 percent, which is approximately the current market for clean tonnage. This heating-oil price may, therefore, be said to reflect fully the current depressed tanker rates.

(13) I do not feel qualified to answer this question since my company does not operate in California.

(14) Crude-oil prices have been increased in Venezuela to levels comparable with the new United States gulf prices, which leaves the relationship of these two areas unchanged. At least one Middle East producer is reported to have increased crude prices. It is impossible to tell at this time what the final developments will be in this direction.

(15) Esso Standard is a domestic operating company and does not come under the new foreign voluntary agreement referred to. I understand that the agreement is designed to deal with shortages and, in the absence of a declaration of emergency, is merely a source of statistical information for PAD. It was sponsored by PAD and has the approval of the Department of Justice.

(16) As indicated in my statement, none of the increases in prices made by Esso Standard had any connection with imports.

(17) Esso Standard knows of no understanding with respect to crude-oil prices.

Mr. HESELTON. There has been some discussion here about gasoline quality being the highest today that it has been since the twenties. Could you comment on the quality today compared with that of 2 years ago? What I have in mind is the effect of PAD Order No. 3 on the use of aviation gasoline components in motor fuel, and on the allocations of tetraethyl lead.

Has gasoline come back to the quality it had before these changes were made in 1951?

Mr. BURKS. As far as our own company is concerned, we are selling now as good gasolines as we have ever sold.

Mr. HESELTON. Are they any better than in 1951?

Mr. BURKS. They may be in some areas, and in others they are the same. I have a record of that, sir, which I would be glad to furnish the committee. I don't recall all of the answers, or all of the octane characteristics of our gasolines in the different States in which we market.

Mr. HESELTON. I recall in 1947 and 1948, during the hearings, that we had at least one witness here who testified at some length that the so-called high octane gasoline was a snare and a delusion, and that as far as any useful results were concerned, you would be far better off to confine yourself to regular rather than premium gasoline.

I realize that is contrary to your sales policy and advertising policy, and everything else that you say, but I am just wondering how you measure the added quality, and I think somebody said this morning that he was running a car and he did not notice he was getting any extra mileage out of it. And I suppose that is one measure of quality.

I must confess that I use your product, and you were good enough to give me a credit card, and that indicated that I am satisfied with your product. I must say that I have not been aware of any decreased drain on my pocketbook as a result of increased quality.

Mr. BURKS. Well, sir, over the years there has been a very pronounced increase in quality, and I have a table that shows pertinent data, which was presented by Mr. C. L. McCuen, general manager of the research laboratories division of General Motors Corp.

In a paper entitled, "Economic Relations of Engine Fuel Research," presented at the American Petroleum Institute in May of 1951, in this report he gave the data on tests his research group had carried out on Cadillac automobiles, delivered to the public in the years 1915, 1935, and 1951.

Mr. HESELTON. I should add, I do not own a Cadillac.

Mr. BURKS. Neither do I.

Now, the table gives the pertinent data, and he shows that in the year 1915 the Cadillac had a compression ratio of 4¼ to 1, and it required 60 octane gasoline, and it would get 11 miles per gallon at 30 miles per hour. In other words, you would get 11 miles per gallon.

In 1935, the Cadillac delivered to the public had 6¼ to 1 compression ratio, and required 67 octane, and they obtained, at 30 miles per hour, 14 miles per gallon. That is an increase of 27 percent over the 1915 Cadillac.

Now, in 1951, the commercial Cadillac had a compression ratio of 7½ to 1, and its octane requirement on this same scale was 84, and at 30 miles per hour he would obtain 20½ miles per gallon. That is an increase over the 1915 mileage of 86 percent, and over the 1935 mileage of 45 percent.

Mr. HESELTON. Is that not oversimplifying the question of increased quality to this extent, that there are many other factors, certainly, in a great many areas—highways have been improved, and the engineering has improved, and the automobile engine itself and the automobile has had changes.

Now, this Dynaflow business certainly has changed the ability to get over the road with less gas.

Mr. BURKS. He goes on to say that—

> the large gains in efficiency were made by a combination of engine developments and fuel improvements. It is estimated that we now have a total registration of civilian vehicles over 48 million, and for every 1 percent increase in efficiency, the total savings amount to 350 million gallons of gasoline per year.
>
> The installation of the equipment to produce great quantities of both aviation and motor gasoline has resulted in tremendous capital investments in the petroleum industry. Nevertheless, the record of the industry, until very recently, has shown continually lower prices to the consumer for a continually better product, and even today's gasoline is lower in relation to other consumer goods than almost any other commodity that was in existence 25 years ago.
>
> These developments, which are characteristic of industrial progress, have contributed immeasurably to our military strength in World War II, and will continue to be of great value in the future defense of this country.

That last, starting with "the large gains in efficiency" and ending "in the future defense of this country," is a quotation from Mr. McCuen's paper.

Mr. HESELTON. Who is he?

Mr. BURKS. He is general manager of the Research Laboratories Division of General Motors Corp.

Mr. HESELTON. Incidentally, I read hastily on the ticker this noon a statement that was attributed to somebody, I believe, in the Defense Department, that the recent increases, it had been estimated, would add $100 million to the cost of operating the Defense Department. That was during the next fiscal year.

Mr. BURKS. Mr. Heselton, when I think of a figure like that, it also occurs to me that perhaps as a result of the increase in profits of the oil industry, that tax income will be considerably greater to the Gov-

ernment. I am not a tax expert, and I haven't made any computations along that line, but I would think that overall, there would be a net credit to the Government.

Mr. HESELTON. I hope so, because I know there has been some straining over there on the floor of the House and in the Appropriations Committee to reduce it every bit they could. I think they would balk if they had a specific item of $100 million more, even though ultimately it might be recaptured.

Mr. BURKS. This is just a thought that has occurred to me while these things were being mentioned, and I do not know what the balance is on that.

Mr. HESELTON. When the hearings began, Mr. John Dressler, who is the executive secretary of the New Jersey Gasoline Retailers Association, appeared before the committee and made a very interesting statement. I take it you know of Mr. Dressler, and of this association.

Mr. BURKS. Yes, sir.

Mr. HESELTON. Were you here when he made his statement?

Mr. BURKS. No, sir, I was not.

Mr. HESELTON. Was his statement called to your attention?

Mr. BURKS. I heard he made a statement, and I don't know and I don't recall what he said. I haven't seen a transcript of the testimony.

Mr. HESELTON. One portion, not of his statement here but of the group's statement at a recent annual convention is this:

> This unreasonable and unwarranted increase in price will probably cause the major oil companies to build more new service stations, thereby reducing the sales by stations which increases the cost of retailing, and gradually eliminating the independent dealer.

Do you foresee that your company is more likely to build more stations in the immediate future?

Mr. BURKS. Is he talking about the price increase following the crude price increase?

Mr. HESELTON. Yes.

Mr. BURKS. Well, sir, we are in poorer position to do that than we were before, because as I have pointed out to the committee today, the effect of our product price increases following the crude price increase, did not recover our crude cost. I don't know of any change in plans to build service stations on the part of our company, and I would certainly anticipate none as a result of any price changes which have been made.

Mr. HESELTON. I assume your building program for next year is pretty well settled by now.

Mr. BURKS. For 1954, you mean?

Mr. HESELTON. Yes.

Mr. BURKS. No, sir. We review our budgets for next year starting in the fall.

Mr. HESELTON. What is the building program so far as stations are concerned, now?

Mr. BURKS. Well, sir, I don't know just how many stations we are going to build this year.

Mr. HESELTON. You could supply that for the record?

Mr. BURKS. We could indicate for the record—you mean the number of stations we plan to build, new stations in New Jersey?

Mr. HESELTON. Yes, during this year, and I think it might be well to expand it beyond New Jersey and put it in for throughout your marketing area.

(The information referred to follows:)

As of July 20, 1953, Esso Standard had appropriated money to build 7 new service stations in 1953 (1 of which is at the Barksdale Air Force Base, Bossier City, La.) and to rebuild 79 existing antiquated service stations. Consideration is also being given to building 1 other new station and rebuilding 3 additional stations, although to date the money for these projects has not been appropriated. We do not plan to build any new stations in New Jersey this year but will modernize six old service stations.

Mr. HESELTON. There is one other thing that Mr. Dressler said, and I am not sure I quote him accurately on this, and I do not know whether he is in the room or not. If he is, I wish he would check me on this. That was to the effect that he—perhaps he and some others—had undertaken throughout the field of the majors to obtain some of their product on what he called a split basis. And as I understood it, it was that they are selling an unbranded gasoline, and they wanted to be able to sell with that unbranded gasoline some of the major suppliers' gasoline.

As I remember it, he got no reaction from anyone for a long time, and then one of the suppliers halfheartedly agreed to look into it, but nothing ever happened.

Can you explain why, if it is a fact, the major suppliers should not be willing to supply such dealers as these with the opportunity to sell their product?

Mr. BURKS. I am not familiar, Mr. Heselton, with any discussions that our marketing people have had with Mr. Dressler. I know we have a service station which is not far from one that I believe Mr. Dressler operates, and I doubt we would feel it necessary to have additional Esso representation that close by.

Mr. HESELTON. That might well be true in a given instance, but is it the policy of the majors to deny to those who are not operating leased stations, or leased by them, an opportunity to sell their product?

Mr. BURKS. No, sir; I wouldn't say it was our policy to deny somebody who wanted to sell Esso, and Esso Extra, a supply of the product. I am not too familiar, as you must appreciate, with the conversations and discussions which Mr. Dressler may have had with some of our marketing management. I just don't know about that.

Mr. HESELTON. I am trying to put it on a broader basis. You say it is not the policy of the company to deny them. Can you give the committee any instances where the Esso Co. is permitting people to sell an unbranded gasoline and to sell the Esso product at the same station?

Mr. BURKS. I just don't know, sir.

Mr. HESELTON. Would that information be available?

Mr. BURKS. I will be glad to supply you with whatever information is available on that.

Mr. HESELTON. I think it would be helpful if you would.

Mr. BURKS. You asking for information concerning whether Esso and Esso Extra are sold in the same station as an unbranded gasoline?

Mr. HESELTON. Yes.

Mr. BURKS. We will be glad to look into that.

Mr. HESELTON. Thank you.

(The information referred to follows:)

Esso Standard has 81 dealers served direct who sell another brand of gasoline in addition to Esso and Esso Extra. We have no figures as to the number of split dealers served by our resellers, although we know of 1 customer who has 20 stations selling Esso and Esso Extra in addition to his own private-brand gasoline.

Mr. HESELTON. Mr. Clark and Dr. Stevenson, I would like to confer with you a moment.

Mr. Bush calls my attention to the fact that we have not established yet in the record how many jobbers the Esso Co. has.

Mr. BURKS. That is heating oil and others? I would have to supply that.

Mr. HESELTON. I think that that would complete the record, and undoubtedly you can supply it in the various categories. If you would do that, I would appreciate it.

Mr. BURKS. We will do that.

(The information referred to follows:)

The term "jobber" as used in the industry does not have an exact meaning. Esso Standard Oil Co. has 436 gasoline resellers and 2,339 fuel-oil resellers who might be included under this term.

Mr. HESELTON. For the benefit of the witnesses who are here today and ready to go on, we have received information from the floor that the members are all asked to be over there. The word came in some 15 minutes ago that there is a rather important bill coming up.

I certainly want to express our appreciation again for your patience and your willingness to stay so long last week, and your effort to be of assistance to us in a matter which I am sure you realize we do not find the easiest thing in the world to deal with. We do appreciate your courtesy and cooperation.

Mr. BURKS. Thank you very much, Mr. Heseleton. I appreciate the opportunity of appearing before you.

Mr. HESELTON. We will recess at this time until 10 o'clock in the morning.

(Whereupon, at 4 p. m., the hearing was recessed until 10 a. m., Tuesday, July 14, 1953.)

PETROLEUM STUDY

(Gasoline and Oil Price Increases)

TUESDAY, JULY 14, 1953

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D. C.

The committee met at 10 a. m., pursuant to recess, in room 1334, House Office Building, Hon. Charles A. Wolverton, chairman of the committee, presiding.

The CHAIRMAN. The committee will come to order.

I would like to make a statement before we call the witnesses. In the past few days we have been hearing from those companies that touched off the recent increases in the prices of gasoline, heating oils, and crude oil. Prior to that we had some testimony from dealers and jobbers. Today we shall hear from some of the independent refiners as to just how they are affected by these increases.

It is obvious from the testimony of the representative of the Esso Standard Oil Co. and from the preceding witnesses from Humble Oil Refining Co. that where both companies are subsidiaries of the same parent the increased cost to the refiner of the crude oil used is simply offset against the increased income accruing to the producing company for the crude oil sold to the affiliated refiner.

It is not so obvious what happens to the independent refiner when the crude oil he buys is increased in price, and when the products he sells are in competition with those sold by an integrated company or system. This is particularly true when, as we heard yesterday, the integrated company reduces the price at which he is selling heating oils and other distillates and passes the reduction back to the refining level.

I trust that the representatives here of the independent refiners, in addition to covering the effect of the price increases, will also set out clearly for us just what has happened to them following the decrease in the price of these distillates.

Our first witness is Mr. Rodman, of the Anderson-Prichard Oil Corp., Tulsa.

Mr. Rodman, you may proceed.

STATEMENT OF ROLAND V. RODMAN, PRESIDENT OF THE ANDERSON-PRICHARD OIL CORP., AND PRESIDENT OF THE WESTERN PETROLEUM REFINERS ASSOCIATION, OKLAHOMA CITY, OKLA.

Mr. RODMAN. My name is Roland V. Rodman. I am president of the Anderson-Prichard Oil Corp., Oklahoma City, Okla. I have been associated with various phases of the oil industry since 1937 and I

have been president of the Anderson-Prichard Oil Corp. since 1947. I am also president of the Western Petroleum Refiners Association, the largest refining group in the country. The association has in its membership substantially all of the refiners operating in what we know as the midcontinent area, including Ohio, Illinois, Indiana, Michigan, Missouri, Kansas, Wyoming, Montana, Colorado, New Mexico, Utah, Arkansas, Kentucky, Oklahoma, and north Texas.

I am here today in response to an invitation from the committee to discuss the effect of the recent increases in the price of crude oil and petroleum products upon independent refiners. This presents a question of definition at the outset because the committee may want to know what is an independent refiner.

In general, the characteristics of an independent refiner are that it is small as compared to the larger segments of the industry; its stock is sometimes closely held, often by the founder or his family; it is largely nonintegrated, that is, it purchases all or most of its crude oil from other producers and it sells its products through jobbers rather than through its own controlled retail outlets. None of these can be taken as sharply drawn lines, however. Independent refiners, for example, do not quarrel with the principle of integration. On the contrary, most of us are striving to become as integrated as we can. Our own company has made a vigorous effort to get as much crude-oil production as we have been able to afford and many other independent refiners are doing the same. Many are also going into the retail distribution of their products.

Instead of trying to arrive at any precise definition, however, I am chiefly interested in presenting the committee a picture of the oil business which will give you some conception of the widespread interests that are involved in it. I have read some of the accounts of the testimony before the committee during the past week and I have been rather surprised at the attention which has been devoted to two or three large companies and their profit picture. Important as these companies are to the oil industry, they are by no means a complete picture of it. There are more than 35,000 individual oil producers in the United States and the number of independent jobbers and retailers runs into the hundreds of thousands. The greatest concentration exists in the refining branch of the industry for the obvious reason that it requires a large capital investment to build even a small refinery today, but there are a great many different companies operating petroleum refineries.

On January 1, 1951, there were 365 separate petroleum refineries in the United States. One hundred and thirty-seven of these had a crude intake capacity of 50,000 barrels a day or more. The balance of the refining capacity is divided among 228 refineries, which are owned by 204 separate companies. One hundred and eighty-four of these companies control less than 20,000 barrels a day of refining capacity each.

These plants are widely distributed geographically. I know that some of the members of the committee are from the east coast and thus probably have not had an opportunity to see at firsthand the extent of the operations of the independent refineries. The east coast is an area where the refineries operate on crude oil imported by tanker. The very nature of this operation requires the financial assets of a

large company. But even though it may not be apparent, a significant part of the east coast supply of products is provided by independent refiners along the gulf coast of the United States. As we get west of the Appalachian Mountains, however, the independent refiners play a very important part in the supply of petroleum products. In western Pennsylvania, for example, there are 11 independent refineries; in Michigan there are 17; in Illinois there are 12; in my own State of Oklahoma there are 16; and in California there are 37. The advantages from a national-defense standpoint of this widespread dispersion of refining capacity is obvious.

But aside from the advantages from a defense standpoint, we think that the preservation of the independent branch of the industry is important to our national well-being because it means the preservation of a strong competitive element in the industry.

The most important products, by volume, for most of the refiners in the mid-continent field are gasoline and residual fuel oil. Residual oil, also often known as bunker fuel or heavy fuel oil, is the residue which is left when the light products are removed during the refining process. It is an oil so heavy that it is not practical to move it by pipeline and the costs of railroad and truck transportation necessarily limit its sale to a restricted area. It is sold only to industrial users for burning under boilers. Principal customers for this product are public-utility plants, railroads, steel mills, and ships.

The refiners in the mid-continent area obviously have only a limited opportunity to sell oil for use in ships' bunkers, and so railroads and public-utility plants have been their best customers. In the postwar years, however, we have seen much of this market disappear. The railroads have converted most of their engines to diesels and many of the public-uility plants and steel mills are using natural gas, which is becoming increasingly available.

Residual oil has always sold for less than the price of crude oil, but in recent years the market has been so depressed—there has been a slight advance—that today residual oil is selling for more than one-third of the price of crude oil. In 1949 the situation became so serious that a number of the smaller plants in the mid-continent field were forced to shut down and today there are many of them which are being kept active only because of the demand for their gasoline.

The gasoline market also presents problems for the independent refiner. In recent years the major companies have improved the quality of their gasoline. The average octane rating of house brand, or regular, gasoline sold in the United States immediately after World War II was 73. Today it is about 86. The average octane rating of premium gasoline sold in the immediate postwar period was 78. Today it is over 90. In fact, the quality of gasoline has improved so that 2 gallons of today's gasoline deliver as much power as 3 gallons of gasoline did a few years ago.

This has been of great benefit to the motoring public, but it has been accomplished only at great cost to the refiners. Many independent refiners have been forced to purchase new equipment—catalytic crackers, reformers, and so forth, in order to hold their place in this octane race with the major companies. The catalytic cracking unit for the average small refinery costs anywhere from $2,500,000 to $4 million today and a typical platforming unit costs about $1 million.

Consideration of the recent increase in the price of crude oil and refined products requires that the problem be examined from the standpoint of our national security, the public, and the industry.

World Wars I and II have demonstrated the necessity of having excess crude productive capacity available within the United States in time of an emergency. After World War I it was said that we had floated to victory on a sea of oil. In World War II we saw a new mechanization of war. The planes in the air, the ships at sea, and the tanks in the field were powered by petroleum. Almost two-thirds of the total tonnage, and that includes the men, moved by sea in World War II was petroleum products. Over 50 percent of the entire energy consumed in this country is of oil or gas origin. Preparedness for war as well as war itself is directly dependent upon this source of energy.

Early in the war we learned that we could not depend upon offshore oil either to carry on civilian activities in relation to war or to directly support our forces in the field. In fact we found ourselves unable to safely and conveniently transport petroleum supplies by water from the Texas Gulf to the east coast and, notwithstanding critical steel shortages, we were forced as a matter of national security to construct the Little and the Big Inch pipelines in order to deliver our own supplies to our own people. During the war we called upon our reserve productive capacity for our war needs and then only by severe civilian rationing were we able to meet those needs. Today civilian demand is greater than ever. Mechanization of the implements of war has continued. The need for greater reserve productive capacity is greater than ever but present policies have not encouraged its development.

However, petroleum is not to be considered only from a military standpoint. The public has a vital stake in a sound petroleum industry. Petroleum is the source of energy for the raising of foodstuffs, the manufacture and transportation of all commodities, the heating, cooking, refrigeration of our homes, and a thousand other uses. The public demands and is entitled to an abundant supply of petroleum products at reasonable prices. But the policies of the last few years have jeopardized that right.

The interest of the public in abundant supplies at reasonable prices is, however, generally the same interest that the refiners have in abundant sources of crude oil. The refineries of this country are scattered clear across the country with largely the same pattern as our population. These refineries have been built at strategic points. Great investment has been made in plant property and equipment, crude oil and products pipelines. An inadequate supply of crude oil means loss of investment, loss of employment, loss of revenue to the States, school districts, and municipalities. If the crude reserves in these areas are not maintained and increased, dependence upon foreign oil, if available, will soon be here and, then, with product shortages and added transportation costs, a reasonably priced product in abundant supply will be no more.

You may ask, "What are the factors that justify the assertion that the policies of the last few years have jeopardized the national security, the public interest, and the industry?" Let me enumerate.

1. The last increase in the price of crude petroleum took place on December 6, 1947. Since that time our population has increased from

142 million to 158 million. Domestic demand for crude oil has increased from 1,792,786,000 barrels to 2,664,977,000 barrels, an increase of 49 percent in the demand for products since 1947. Per capita consumption of crude oil has gone from 12.6 barrels in 1947 to 16.8 barrels. Proven crude reserves at the close of 1947 were 21,481,685,000 and at the close of 1952 were 27,960,554,000, an increase of only 30 percent in our reserve supply of crude oil as against an increase in the market demand of 49 percent. The above figures demonstrate that new reserves are not being added at sufficient rate to keep up with the normal increased demand.

2. At the beginning of World War II the industry had an excess productive capacity of more than 1 million barrels per day. This, however, was only made sufficient by the severe rationing of civilian consumption. This oil was available to us merely by increasing our rate of withdrawal from the existing wells at that time and when we needed it for the war effort all we had to do was to produce it. There was no problem of development of anything else, engaged in that development of 1 million barrels in excess capacity. Now, in the face of an increased civilian demand the industry does not have the necessary excess productive capacity required for national defense and in terms of years' supply has reached the lowest point since 1924.

3. New reserves are not being added at a rate sufficient to meet peacetime demands. In 1952 we added to our proven reserves less than one-half billion barrels of oil which is less than enough to meet our peacetime needs for a 3-month period.

4. In terms of future years' supply our proven crude reserves have declined each year since 1949. We now have about 10 years of future supply based on our current needs; giving effect to your increase in demand it will probably be less than that. That, in terms of future supply, we have seen a decline in our future supply every year since 1949. This steady decline points toward insufficient petroleum supplies for national defense, substantially higher prices to the public should shortages occur, and abandonment of plant, property, and equipment of inland refineries if domestic supplies are not maintained.

I might say that we have had in this country as much as 15 years of future supplies available. We used to operate on the trend of increasing our reserves in terms of future supply. When we had the price increase on December 6, 1947, it was immediately followed by a great stimulus in drilling activity. The number of wells drilled shows probably the largest increase we have had at any time, due to the stimulus given by the price increase on December 6, 1947.

So our crude reserves in terms of future supply jumped and 1949 reserves were over 1948, but with the increased labor costs and one thing and another, those supplies in terms of years' supply, have steadily gone down since.

History has demonstrated that the amount of crude reserves developed is directly related to price and market. Crude reserves cannot be locked up in the hope that they may be available at some future date. Crude must be marketed at a price commensurate to its cost in order to promote development. The increase in price in 1947 was followed by the largest increase in drilling activity that the industry has ever seen. However, this incentive to drill was soon eliminated. With the coming of the Korean war all commodities in a 2-year period

advanced 16.7 percent. Crude petroleum advanced only 0.8 percent. Textiles advanced 33.8 percent; chemicals, 29.7 percent; farm products, 22.7 percent; foods, 16.5 percent; building materials, 12.8 percent; and metal products, 9.1 percent. And again I repeat, crude oil advanced eight-tenths of 1 percent. These advances were felt throughout the petroleum industry with the slackening off of drilling activity until in 1952 we saw less wells drilled than in 1951.

In our own company we saw labor in the production division go from $1.32 per hour in 1948 to $2.05 per hour in 1952, an increase of 55.3 percent. And that increase was a steady advance forward; 1949 was higher than 1948, and 1950 was higher than 1949, and 1951 was higher than 1950, and 1952 was higher than 1951.

Our steel cost advanced from $118 per ton in 1948 to $155 per ton in 1952, an increase of 31 percent. In the drilling of an oil well we only have two things that are real expensive. One is steel and the other is labor. However, there is another factor, and that is drilling depths. Drilling depths of our own company have increased consistent with or beyond that of the industry. The industry as a whole saw an increase of 17 percent in the depth of wells between 1948 and 1952. When you increase the depth of wells, the cost of that increase is not an arithmetic cost. The extra thousand feet you put on the bottom of a well may cost you as much as all that has gone before. We have drilled wells that cost us in excess of $100 per foot for the lower portion of the well.

These are the elements that caused us to reach stagnation in drilling in 1952. Our costs were too high and the rewards were insufficient. Price is the only sound method of correction.

I have said price is the only method that will do that because we know from experience in the past that that has been the result. In 1926 we saw the price of crude oil start sliding. In 1926 we were drilling at a rate of 29,000 wells a year. The price of crude oil steadily declined. By the time we reached 1931 which was an 8-year period we saw our drilling activities reduced to 12,000 wells a year. It was simply because the price had declined.

We know what happens when wheat goes to 40 cents a bushel; the farmers quit raising it, and when potatoes in Maine go to 35 cents a hundred they quit raising them. The same is true of crude oil.

How does crude oil respond to an increase in price? We saw slight advances in crude-oil prices from 1931 to 1937, which was a 6-year period. During that period of time, the number of wells drilled per year increased from 12,000 wells a year to 35,000 wells a year. It was the advance in the price of crude oil that stimulated drilling activity because people then had money to explore with.

The price of crude oil was generally frozen during the war, from 1941 to 1945 and 1946, and the only substantial increase came after the close of the war.

In 1947 we drilled 33,000 wells. In 1947 we saw the advance in the price of crude oil. In 1948 we drilled 39,000 wells, which was the greatest increase in drilling that the country has ever seen and it was stimulated entirely by price.

Our security depends upon having adequate excess productive capacity of crude oil on our own shores and we will never have it without a price incentive and a profit motive that will permit and encourage people to risk their capital to get the thing that we need.

Certain persons unfamiliar with the petroleum industry have indicated that perhaps an increase in crude was justified but that the refining branch of the industry might well absorb the increase.

Such a viewpoint is not only bad from the standpoint of a free economy but it would be unmoral and impossible. Product prices f. o. b. the refinery have substantially remained constant in the midcontinent since 1948. In 1948 we were selling gasoline for 10¼ cents in the midcontinent. That price has prevailed for a full 5 years, and we were selling it for 10⅔, as of the close of 1952.

During the bulk of that period the prices were controlled by legislation. In fact it was only early in the year that we removed controls so we might have a free market on petroleum.

Our company's increase in the costs of refining operations from 1948 to 1952 have been constant. Operating and maintenance labor has increased 47.69 percent. Operating materials and supplies have increased 67.82 percent. Such increases have been general within the industry. During the period of price control these increases were absorbed but, even before the increases in the price of crude, many of the smaller segments of the industry had reached a point where an increase in products prices were long overdue and today cannot absorb an increase in crude costs.

Today the increase in the price of crude should not and cannot be absorbed. The crude oil cost represents roughly 70 percent of the total cost that goes into a gallon of refined products. We cannot have a substantial increase, a 10-percent increase for instance, on 70 percent of our cost, without having an increase in the price of the commodity to offset it. Even before the increase, products prices should have advanced because no industry can operate with its operating labor having increased 47 percent and its materials and supplies having increased 67 percent, and continue to absorb those costs.

It has been suggested that crude supply, refinery runs, product inventories, and market demand for refined products did not justify the advance in crude oil. I call the committee's attention to the fact that as of the close of 1952, in terms of days' supply, crude in storage was at the lowest level that it has ever been with the exception of 1951. In terms of days' supply all oils were at an alltime low in the history of this country, with the exception of 1951.

In 1951 due to the refinery strike, there were certain curtailments both of crude production and refinery runs and we closed 1951 with 39 days of supply of crude. We closed 1952 with 40 days, and that is the lowest point that we have ever been in our history, in the history of the industry, beginning with 1918, from a standpoint of available crude above ground.

It has been nothing in the past for us to have from 120 to 150 days supply of crude above ground. It has been a very common thing.

So the fellow that tells you we had so much crude on hand that no advance could have possibly been justified, has not taken the proper view of the history of our industry.

Now, in terms of all products, that is crude supply, gasoline and every type of product we make, we had only 87 days' supply on hand, and that is the lowest that we have ever had, except for 1950 when we had 86 days' supply, and 1951 when we had 82. But if you look at the history of our industry, it has been a very common thing for us

to have on hand from 200 to 238 days' supply of all products, so inventories were low.

I might reduce that further to illustrate the point. Today we have a little better than 55 million automobiles on the highway; automobiles and trucks. The gasoline stocks in barrels amounted to 155 million barrels. Now, there is 42 gallons of gasoline in a barrel. In terms of inventories per automotive unit we had 2.8 barrels on hand. So certainly we had no inventories that were pressing down upon the market.

In conclusion, I may summarize by saying or calling the committee's attention to the fact that:

1. On a commodity index basis the petroleum industry has served the public better than any other industry in America. We have constantly reduced our prices, and we have constantly improved our quality.

2. The industry has consistently delivered to the public an improved product at a progressively lower price. Gasoline, 1920, 29 cents per gallon ex tax; 1952, 20 cents per gallon ex tax. 1952 gasoline has more than 50 percent more power than 1920 gasoline.

3. Returns on the net worth of the oil industry are less than the returns on the net worth of industry generally. The petroleum industry has no apology for the earnings we have made. Consistently the earnings of the petroleum industry have been as low or lower than the earnings of manufacturing corporations generally in America. From a standpoint of dividends to stockholders, petroleum companies have paid a smaller percentage of their earnings out in dividend than other companies. That is due entirely to the fact that the business is one that requires a great deal of capital and we cannot distribute the same proportion of our income in dividends that other industries do.

4. We have kept pace with national developments and have discharged our responsibilities in times of national emergencies.

Now, we are proud of the fact that during the last 50 years with the development of the chemical industry and the railroads, and the automobile industry, and the rubber industry, and all other industries that have made America the fortress of strength, petroleum has kept pace with that development. It has always contributed its part to our growth and development on a basis of a better product for a lower price.

I think that is the end of my statement.

Mr. HESELTON. Are there any questions?

Well, Mr. Rodman, does your company produce any oil?

Mr. RODMAN. Yes, sir; we produce about 50 percent of the crude that is run to our refineries.

Mr. HESELTON. From whom do you purchase the balance?

Mr. RODMAN. We purchase the balance—we operate 3 refineries, as a matter of fact, 1 at Arkansas City, Kans.; 1 at Cyril, Okla.; and 1 in Colorado City, Tex.

Adjacent to these plants we have small pipeline gathering systems, and we buy our oil from probably a thousand or 1,200 different persons. Most of them are small, independent producers who have explored for oil and found oil in the neighborhood of these pipelines.

Mr. HESELTON. Did your company experience any inability to buy enough crude oil before this June 15 crude-oil increase?

Mr. RODMAN. We have been able to buy such crude as we needed, but I have had to trade our own production to other companies in order to get them to give me oil with which to operate these plants.

Mr. HESELTON. Your gross operating revenue in 1951 was $34,292,487; is that correct?

Mr. RODMAN. That is correct.

Mr. HESELTON. And in 1952, it was $35,532,249; is that correct?

Mr. RODMAN. Yes, sir. I think that that is correct.

Mr. HESELTON. Your total assets in 1951 were $35,669,972?

Mr. RODMAN. Yes, sir.

Mr. HESELTON. And in 1952 they were $38,683,922; is that right?

Mr. RODMAN. Yes, sir.

Mr. HESELTON. Your net profit was $4 million——

Mr. RODMAN. If you are trying to get at our gain in net worth, the stockholders' equity figure, at the bottom of those same columns, discloses the net gain in net worth during the period.

Mr. HESELTON. Perhaps you had better put that in here at this point. I do not have that.

Mr. RODMAN. I thought you were reading from our annual statement.

Mr. HESELTON. No; I do not have it.

Mr. RODMAN. The stockholders' equity, in the Anderson-Prichard Oil Co., at the close of 1951 was $29,900,000. As of the close of 1952 it was $31,800,000.

Mr. HESELTON. Now, your net profit in 1951 was $4,846,890; is that right?

Mr. RODMAN. Yes, sir.

Mr. HESELTON. And in 1952 it was $3,766,530?

Mr. RODMAN. That is right.

Mr. HESELTON. Your net profit per share in 1951 was $5.96, and in 1952 it was $4.63?

Mr. RODMAN. That is right.

Mr. HESELTON. Your cash dividends paid in 1951 were $1.80 per share?

Mr. RODMAN. That is right.

Mr. HESELTON. And in 1952, $2 per share?

Mr. RODMAN. That is right.

Mr. HESELTON. Your net crude production in 1951 was 4,023,095 barrels, and in 1952 it was 4,528,842 barrels.

Mr. RODMAN. That is correct.

Mr. HESELTON. And you said that you purchased about the same amount as you produced?

Mr. RODMAN. We do. Mr. Chairman, since the publication of this statement, or if you will read the body of the statement, you will see that we have purchased Kanotex Refining Co., at Arkansas City, Kans., which is purely a refining company, that more than doubled our refining capacity, and that is why the statement that I made that we purchased over 50 percent of our crude was correct.

Mr. HESELTON. What increase in products did you make as a result of this crude increase?

Mr. RODMAN. Sir, I did not hear you.

Mr. HESELTON. What increase, if any, in products did you post after this increase?

Mr. RODMAN. We announced an increase of a cent a gallon on gasoline, half a cent a gallon on intermediates, distillates, and 15 cents on industrial fuel oil.

Mr. HESELTON. What has happened, if anything, to your price for distillates since the reduction?

Mr. RODMAN. Nothing has happened on the distillates, but the advance in the price of gasoline, the market would not stand the advance, due to competitive factors within the industry, and in five States in which we operate the advance in gasoline was only four-tenths of a cent in certain areas and five-tenths of a cent in other areas.

Mr. HESELTON. There has been no change in that?

Mr. RODMAN. No, sir; except that we had to retract certain of the advance that we tried to get for our product.

Mr. HESELTON. What did you post as a price?

Mr. RODMAN. Well, we advanced our price a cent a gallon, as I say, but in these five States we had to come back to either four-tenths or five-tenths due to competitive factors within the area.

Mr. HESELTON. Is that true of the other gasoline prices in that area?

Mr. RODMAN. That is true of the gasoline prices in the area in which the Standard of Indiana is the leading marketer.

Mr. HESELTON. Did Standard come back to that degree?

Mr. RODMAN. Standard never advanced their prices beyond that point.

Mr. HESELTON. Have you stated for the record what that area is?

Mr. RODMAN. Nebraska, Iowa, North and South Dakota, and, I believe, part of Minnesota.

Mr. HESELTON. Now, do you sell at published prices or do you operate under what are known as processing agreements?

Mr. RODMAN. We have two methods of sale. We post our own price on our own product at our refineries for transport deliveries. Now, that is merchandise sold to be consumed within a short distance, maybe 200 miles of our plants.

Merchandise that moves into large marketing centers or large consuming centers, like Iowa and Illinois, we sell based on a trade publication.

Mr. HESELTON. You do have competition then from at least one integrated company in that area?

Mr. RODMAN. We have competition from many integrated companies in every area we serve.

Mr. HESELTON. Does Standard Oil of California hold any stock in the Anderson-Prichard Oil Co.?

Mr. RODMAN. The Standard Oil Co. does not have a share of stock in the Anderson-Prichard Oil Corp.

Mr. HESELTON. Is Standard Oil of Indiana a member of the association?

Mr. RODMAN. Of the Western Refineries Association, I think so. I can leave this booklet with you which has the list of our entire membership in it.

Mr. HESELTON. That gives the membership, and does it give the contributions made by the members to the association?

Mr. RODMAN. No; it doesn't.

Mr. HESELTON. Does Standard Oil of Indiana contribute?

Mr. RODMAN. Yes; I am sure it does.

Mr. HESELTON. I noticed in 1952 your company used the term "net wells drilled." I do not know what "net" means.

Mr. RODMAN. We drill certain wells in which we do not have a 100-percent ownership. If we drilled a well in partnership, each having 50 percent, I would have one-half of a net well.

Mr. HESELTON. When it is stated here that Anderson-Prichard drilled 109 net wells, that means both the wells where you have 100-percent ownership and those in which you are in partnership with somebody?

Mr. RODMAN. That means that that was our net interest in all of the wells that we drilled.

Mr. HESELTON. And 37 of those were dry holes in 1952, and 72 were producing wells?

Mr. RODMAN. That is right.

Mr. HESELTON. Do you know Mr. Walker T. Pound, the director of the Oklahoma Conservation District?

Mr. RODMAN. Yes, sir, I do.

Mr. HESELTON. I realize that you cannot very well be responsible for what anybody else says, but I would like to have your reaction to this:

> This whole thing boils down to one basic fact: west Texas producers are trying to chisel in on a market which historically belonged to Oklahoma, Kansas, Illinois, Michigan, and Indiana. The Great Lakes crude marketing area has always been primarily served by these States. Cutting Oklahoma's allowables has not resulted in any decrease in imports, nor has any credit been given us for our attempt to cooperate in reducing national crude-oil stocks.

Having in mind your testimony about the reductions in crude stocks, will you comment on his statement?

Mr. RODMAN. Well, I, of course, would not want to assume responsibility for Mr. Pound's viewpoint.

Mr. HESELTON. I made that clear.

Mr. RODMAN. And I do not know which part of his statement you wish me to comment on.

For instance, I do not regard that anybody has a vested interest in any market, and I think we have a free competitive industry, and if Texas wants to put its oil in the Chicago market, they are certainly at liberty to do so.

Mr. HESELTON. I was not so much interested in the first part of his statement, as I was in that complaint that Texas was not giving any credit to Oklahoma's attempt to cooperate in reducing national crude-oil stocks.

Mr. RODMAN. Well, I think that Mr. Pound is uninformed, if he believes that our national crude-oil stocks were too high. Now, in fairness to the committee, this may be what he was referring to. There has been some agitation within the industry to try to curtail certain of the oil that is being imported.

Mr. HESELTON. Yes; in fact that has been so successful that we have on the floor, with a rule, a bill to accomplish that purpose.

Mr. RODMAN. That is very good.

Mr. HESELTON. It is very bad.

Mr. RODMAN. Mr. Chairman, what Mr. Pound was probably referring to was that during this period that the imports have continued, Texas took 380,000 barrels a day off the oil production for Texas.

Mr. HESELTON. By reducing the allowables?

Mr. RODMAN. Texas was producing 380,000 barrels less in April than she was in December, and that is probably what Mr. Pound was referring to. He was referring more to a reduction in allowables than he was to an excess aboveground inventory.

Mr. HESELTON. Do you mean by that, that Texas was reducing its allowables because of the import situation?

Mr. RODMAN. Certainly.

Mr. HESELTON. That is most interesting. What has that to do with maximum efficient production?

Mr. RODMAN. Well, maximum efficient production—there are many phases of conservation—and maximum efficient production certainly is not the only phase. If there is no market and the oil cannot be used, there is nothing that you can do with it. There is no purpose for bringing it aboveground.

Mr. HESELTON. But you have been testifying at length this morning to the very weakened position of the stocks, all across the field, and you have given us quite a story on that.

Mr. RODMAN. The stocks across the field have been sufficient but I have not seen any evidence of an excessive stock.

Mr. HESELTON. Well, it may make sense to you, and I hope it does. Here are two headlines just before the crude-oil increase: "World Crude Oil Output Hits Record for Fourth Month in a Row"; "Distillate Stocks Soar."

Mr. RODMAN. May I comment on that first statement? I think it is very well that world crude oil output should hit a record. The increase in the use of petroleum products has been steady in this country, and the increase in the foreign use of petroleum products since the postwar period has exceeded our own increase. So it is only natural that world petroleum products should strike a new peak on production.

Mr. HESELTON. It refers to record production in the United States of 6,634,000 barrels daily.

Then there is another portion of it that is headlined: "Distillate Stocks Soar About 63 Percent Over a Year Ago Levels."

Mr. RODMAN. That is perfectly natural. You see, a year ago we had a refinery strike that threw out distillate stocks to too low a level, and now we are accumulating distillates to take care of next winter's business, so that the people in New England and northern areas will have adequate supplies of fuel oil. We do that every year.

Mr. HESELTON. Another headline reads: "Unseasonable Gains Hike Stocks of Gasoline to 22 Percent Above 1952." That is just 3 days before the crude-oil increase was posted.

Mr. RODMAN. Well, gasoline inventories on July 4 over June 27 went down 2 million barrels, and the gasoline inventories are not too high, based on a day's supply. In terms of days' supply, our gasoline inventories have declined.

Mr. HESELTON. There must have been quite a drop then from June to the first part of July. It states here that because of unseasonable increases in gasoline inventories at east coast and gulf coast, last week, stocks went up 22 percent above the year-ago level, and combined stocks of 2 regions rose 1,309,000 barrels last week, total 77,070,000 barrels, a rise of approximately 2 percent from previous week. Last week's total compared with 63,962,000 barrels a year ago when the inventory was drawn down by the strike.

Mr. RODMAN. The inventories were what?

Mr. HESELTON. Drawn down by the strike.

Mr. RODMAN. Sixty-three million barrels; is that right?

Mr. HESELTON. It states here that the inventories last week compared with 63,062,000 barrels in a comparable week 1 year ago, when inventories were down as a result of a month-long refinery strike.

Mr. RODMAN. That is probably true, because we ran out of products entirely when our plant was shut down. We had no inventory at all.

Mr. HESELTON. Do you market directly? Do you sell your gasoline yourself?

Mr. RODMAN. We sell it entirely to independent jobbers.

Mr. HESELTON. Have you had any complaints from them?

Mr. RODMAN. May I qualify that? That is with the exception of about 10 stations in Oklahoma City which we operate, and the rest of it is sold to independent jobbers.

Mr. HESELTON. Did you want to say anything further?

Mr. RODMAN. No; that was all, thank you.

Mr. HESELTON. Are there any other questions?

Mr. PELLY. As I understand it, you produce about 50 percent of your own oil now?

Mr. RODMAN. That is correct.

Mr. PELLY. And therefore on 50 percent, your costs have gone up because you have to buy your crude oil approximately 25 cents a barrel higher than before?

Mr. RODMAN. That is right.

Mr. PELLY. In the area where you buy crude oil, do you compete for connections with other buyers?

Mr. RODMAN. Oh, yes; surely.

Mr. PELLY. You had to raise your price in other words, to hang on to those connections?

Mr. RODMAN. Well, that is exactly right. We waited about 48 hours before we changed our price, but we changed our postings so that they were effective as of the same date of the other postings.

Mr. PELLY. Well then, in pricing or as you say, in posting your prices, your selling prices, you made certain price increases, some of which had to come down in certain areas?

Mr. RODMAN. That is right.

Mr. PELLY. What is the difference between the revenue, extra revenue you got on account of price increases, and between the amount of costs that you had to pay on account of the higher cost of the oil you purchase? What do you figure, in other words, will be your net result of this price increase?

Mr. RODMAN. Well, our net result of the price increase would have been 24.19 cents a barrel if we could have made it stick.

Now, I do not know what proportion of our overall gallonage will move into Iowa, and Nebraska, and the Dakotas, where Standard of Indiana only took four-tenths of a cent a gallon, so I cannot give you the exact figure.

Mr. PELLY. In other words, as I understand your statement, the only way you stand to gain on this increase in prices is through the increased price that you get from your own producing wells. That is the only gain you have because you did not even price your products up enough to cover the increase?

Mr. RODMAN. That is true, but irrespective of the crude oil price, we would have advanced gasoline as quickly as we could have anyway.

Our manufacturing costs between 1948 and 1953 merely due to labor increases and material increases in the plant, had gone up 17 cents a barrel, and so if we advance the price of crude oil some compensation has got to be made for it.

Mr. PELLY. Your labor, as I understood you to say, was about 30 percent of the cost of your product?

Mr. RODMAN. No, in the refining industry the crude material represents about 70 percent of your total cost, and now in some industries that are purely manufacturer that have lots of hand labor and things of that character, the labor factor is much higher than it is in the refining industry.

I do not mind telling you that on a barrel basis, our labor cost runs 21.47 cents per barrel for labor, as against a material cost of $2.57 based on the gravity of crude.

Mr. PELLY. Did I understand from your testimony that you were critical of the committee for going into the profit end of the investigation? Did you make some remark about that?

Mr. RODMAN. No, I am not critical of the committee. I think, as a matter of fact, the entire thing is very helpful. I think it is wholesome. I do not know why American industry should think that they should be able to hide their light under a bushel and fail to be frank with a congressional committee. This is a democracy, and if people want to know about your business, tell them.

Mr. PELLY. Do you recall the statement that you made that I might have in mind—something regarding the profits?

Mr. RODMAN. I think I made a statement that as an industry—I am something of a newcomer to the industry and I have been in it about 15 years and I used to think about the industry just like a lot of other people think. I used to think it was a controlled industry and the prices were fixed, and there was something in every closet.

But, having gotten into the thing, and realizing the competitive forces that are always present, my ideas have changed because I know that what I used to know was not so.

Now, what I said about profit was that I am proud of the record of the petroleum industry. On any commodity index that you can get hold of, we have served America better than any other industry. We have had a lesser increase than any other industry. We have increased technical knowledge and have passed the benefit on to the public.

As a so-called industrialist, in a small way, I have about three jobs. One of them is to try to see that our employees are treated fairly and taken care of because I have a responsibility to them and their families. The other is to see that our stockholders get a reasonable rate of return for rent on the tools and equipment they put in the hands of our employees. Now, my third responsibility is definitely to the public, and I think as an industrialist. Someone mentioned the other day "Why don't you pass on to the public the benefits of increased technical knowledge, and so forth?" You know that is just what we have done.

We have gone ahead and spent a lot of money in the petroleum industry. Following the twenties we went to thermal cracking, and

we started recovering twice as much gasoline out of a barrel of crude oil as we did before that time when we depended upon normal distillation methods. We passed that benefit on to the public.

That is why you pay 20 cents a gallon for gasoline now, ex tax, instead of 29 as you did before, and when you compare the cost of steel and the cost of labor and the cost of materials or anything else, the job we have done is one we should be proud of, and we should never hesitate to discuss any of it with the committee.

Now, when you get to the question of earnings, which is your question, based upon our net invested capital, the petroleum industry has made less than manufacturing generally in America, if you will take the period from 1924 to 1948. I am sorry I don't have the figures subsequent to 1948, but our rate of return on net increased capital has been lower than industry generally in America.

Now, the last thing I want to do is get into an argument with the chairman of the committee, but here is something we should remember about the petroleum industry: All during the war our prices were practically frozen. I think on crude oil we got a very modest advance of about 10 cents a barrel. It was not until the close of the war that we had an increase in crude. In my judgment the increase in the price of crude oil was long delayed, but it was delayed by controls that were in effect, and we should have done everything we could to prevent inflationary forces from starting.

So, when the war ended there were abnormal increases in the price of crude, not increases that were disproportionate to the cost of capturing a barrel of crude. But we had to take the catchup in a relatively short period of time instead of having had small advances in the price of crude oil over a longer period of time.

Now as to petroleum products. Our prices have been frozen since the beginning of the Korean war until this spring. We are practically the only industry or one of the few industries that have done as much and received so little that I am proud of the record, and I am not apologetic about it.

Mr. HESELTON. Will the gentleman yield at that point?

What was the period you used; 1924, to get that 29 cents?

Mr. RODMAN. The period I used was 1924 to 1948.

Mr. HESELTON. What were the 2 figures you used, 20 cents and 29 cents?

Mr. RODMAN. On the price of gasoline; in 1920, it was 29 cents a gallon, and that is ex tax, as compared to the 20 cents a gallon now.

Mr. HESELTON. Twenty cents a gallon now. Did your studies carry you at all to what the purchasing power of the dollar in 1924 was?

Mr. RODMAN. Well, the purchasing value of the dollar was probably—if you let 1926 equal 100 on the Bureau of Labor Statistics, the purchasing value of the dollar in 1924 was 106 percent of what it was in 1926.

Mr. HESELTON. What was the purchasing value of the dollar in 1948?

Mr. RODMAN. About 52 or 53 cents, but you see on that basis we were giving you $2 worth of merchandise for 50 cents.

Mr. HESELTON. Of course the other side of the picture, as you know, is also there.

I think in deference to the other witnesses you and I had better suspend, with just this comment: That I am completely unconvinced.

Mr. Pelly, did you have further questions?

Mr. PELLY. I would comment, on the other hand, that I think the witness has made a very fine statement and presented a picture which is helpful. I am not in agreement with our chairman that there is any evidence that there have been undue profits or anything other than giving the consumer a better value for the dollar. But I do think that it is important for the members of this committee as representatives of the people to get an understanding, and to be sure that there is no collusion, and that there are no unlawful hindrances to the continual expansion of the industry and its contribution to our standard of living.

I commend the witness myself for his very fine statement on that subject.

Mr. WILLIAMS. I would like to ask you one more question, if you will, sir.

I suppose that the purpose of these hearings, which is still not exactly clear to me, is to determine why the oil industry has permitted the price of crude oil to be increased a quarter a barrel; that is the figure, is it not?

Mr. RODMAN. That is generally the figure.

Mr. WILLIAMS. I think that certainly you have given the committee valid and justifiable reasons why the increase came about, and I am surprised, in fact, that you were able to hold the increase at that level. I would like to ask you one question, though, in order to try to clarify this thing in my mind.

It would appear to me that the question of whether or not this increase was justified would depend on the amount of increase in the cost of production and marketing, as well as the continued decline in the value of the dollar.

When was the last time that there had been a general price increase in crude oil prior to this?

Mr. RODMAN. December 6, 1947.

Mr. WILLIAMS. This 25 cents per barrel reflects an increase of approximately what percentage in the price of crude oil?

Mr. RODMAN. It is roughly 10 percent.

Mr. WILLIAMS. That means that you have increased crude-oil prices by approximately 10 percent?

Mr. RODMAN. That is right.

Mr. WILLIAMS. In your statement, on page 8, you state that your company's increase in cost of operations from 1948 to 1952 has been constant, that operating and maintenance labor has increased 47.69 percent; operating materials and supplies have increased 67.82 percent.

Mr. RODMAN. That is in reference to our refinery operation, that you are now reading. If you are going to the preceding paragraph, you will find what our costs were in the producing end of the business.

Mr. WILLIAMS. If you have that in front of you I would like to refer to it.

Mr. RODMAN. That is on page 7.

Mr. WILLIAMS. Using the term "overhead" as the general cost of doing business, approximately how much has your overhead increased since the last increase in price of crude oil?

Mr. RODMAN. I wish I could give that to you.

Mr. WILLIAMS. Well, has it been as much as 10 percent?

Mr. RODMAN. Oh, well, yes, surely. I can tell you this: We were putting oil through a refinery for 37 cents a barrel in 1948, and my processing costs became 54 cents in 1953. Now, that is probably the answer you want. In that we have all of these factors accounted for in labor, materials, and many items you have to run up 4 or 5 or 6 places on the decimal to find out what they are.

Mr. WILLIAMS. Thank you, sir.

Mr. HESELTON. I should ask you this: You did see these questions that the chairman submitted on July 1 when the hearings were opened?

Mr. RODMAN. I saw them when the hearings were first opened. At that time I had no thought of ever being here. I do not now know what the questions were, save and except as I heard some of them reasked yesterday of Mr. Burks.

Mr. HESELTON. If the clerk furnishes you with a copy of that, you will have the privilege, if you want to, to place in the record any answers you want to any one of those questions.

Mr. RODMAN. Thank you, sir.

Mr. Chairman, I forgot one thing, and I have three messages that came to us from a standpoint of the association that I would like to have leave to put in the record.

The first is a telegram, and this telegram is from the Illinois Farm Supply Co., signed by Mr. C. H. Becker, vice president. It says:

> We are concerned about some statements made since the crude-oil price increase on June 15 that such increases should have been absorbed by the industry and consequently not reflected in consumer prices. Such policy would certainly work hardship on us and we presume also on many others who are in our position. We operate a 5,000-barrel daily capacity refinery at Pana, Ill. We are not crude-oil producers. We purchase all of our crude oil at market price.
>
> To pay such an increase in price for crude oil without upward adjustment in consumer and wholesale prices for finished products would reduce the small earnings of this refinery to a severe loss.

That is a cooperative organization that manufactures their own products for their own people.

I have a letter from the Indiana Farm Bureau Cooperative Association, which says:

> Since the increase in wholesale and retail prices of motor fuels and the light heating oils following the crude increase of approximately 25 cents per barrel on June 15, there has been much publicity in the press and in the petroleum trade papers and periodicals. This has been particularly true since the beginning of the hearings conducted by the House Interstate and Foreign Commerce Committee.
>
> It appears that the intent of these hearings and many of the witnesses who have appeared before the committee is to require the refiners in the industry to absorb the price increase on crude oil without affecting the retail or wholesale markets. Such a program certainly places a heavy burden on the independent refiner, and to many independent refiners, complete disaster if that condition prevailed over a long period of time.
>
> We in our organization, marketing exclusively to farmers in Indiana, have attempted some integration of our petroleum system. Most independent refiners own little or none of their crude-oil supply for their refineries. We are in that position and consequently gain very little from the increase in the price of crude oil. Furthermore, most independent refiners in the past few years have been forced into making very heavy investments in various cracking processes in order to increase the yields of light higher priced products from high-cost crude and to meet the high-octane requirements of present-day internal-combustion engines.

It also must be appreciated that 20 percent or more of every barrel of crude is heavy residual oil, which in many cases does not return the refiner more than one-third the cost of a barrel of crude f. o. b. the refinery. In addition to increased costs of crude oil and the heavy investment in cracking processes, the independent refiner, like the rest of the industry, is now confronted with an across-the-board 4-percent wage increase.

In view of these circumstances, the recent increase in wholesale refinery prices is certainly justified and independent refiners are not in a position to absorb the increase.

We hope that the National Petroleum Association will make every effort to present the true facts to the House Interstate and Foreign Commerce Committee in its hearings.

The other letter is from the Louisville Refining Co.:

The Louisville Refining Co. was purchased by the Farm Bureau Cooperative Association of Ohio in 1945 for the purpose of assuring its farmer patrons a continuing supply of petroleum products.

After reading some of the testimony that has been given before the Wolverton committee, I feel I should write you this letter. Since the proceedings started, I have been left with the impression that the committee would feel its purpose had been accomplished if the major companies were pressured into returning gasoline prices to their former level, regardless of what was done about a revision of the price of crude. Should this happen, our position in the oil industry would be seriously affected. Here are the reasons:

In 1952 our refinery realized a net profit of $0.213 per barrel of crude run. For the first 5 months of 1953, we have realized a net profit of $0.185 per barrel, the decrease in profit being due entirely to a decline in the price of heavy fuel oil—the netback on all other products remaining about the same. There is no appreciable difference in our cost of processing a barrel of crude for the first 5 months of 1953 as against 1952.

Our daily average throughput for these periods has been 6,000 barrels and I believe our processing cost and netbacks are comparable with those of any other small refinery. Our owned crude production amount to less than 2 percent of our requirements and we are almost entirely dependent on supply by purchases from other producers. The recent crude increase of 25 cents per barrel has been absorbed by a 1-cent increase in our wholesale gasoline price, and this has been possible only because we are realizing a gasoline yield of 63 percent or 26.5 gallons out of each barrel of crude. This compares with the present national average gasoline yield of 44.8 percent.

Should the gasoline price be returned to its former level and the price of crude retain the recent increase, it is obvious that our current earnings of $0.185 per barrel would revert to a loss of $0.065. If the price of crude and gasoline remain at the levels recently established, then we will pick up an additional 1½ cents, but this will be partially offset by the increased cost of carrying higher priced inventories of crude oil and finished products, larger accounts receivable, and so forth.

In closing, I would like to point out that the farmers of Ohio have an investment of more than $4,500,000 in our refinery, that our return on the amount of money invested has not been unreasonable, and any downward adjustment in the price of gasoline without a compensating adjustment in the price of crude would be disastrous to our company and to every other independent refiner who does not own production sufficient to supply all or a substantial part of his crude requirements.

If this letter will be of any use to your association when you appear before the committee next week, you may use it as you see fit.

Signed by the manager of the Louisville Refining Co., which is owned by the Farm Bureau Cooperative of Ohio.

Mr. HESELTON. On behalf of the committee I want to thank you for coming here and giving us the benefit of your experience.

The next witness is Paul G. Blazer, chairman of the board of the Ashland Oil & Refining Co., Ashland, Ky.

STATEMENT OF PAUL G. BLAZER, CHAIRMAN OF THE BOARD OF THE ASHLAND OIL & REFINING CO., ASHLAND, KY.

Mr. BLAZER. I have a written statement that I would like to present. I would like to read my statement and comment on it as I go along, if you do not mind.

My name is Paul G. Blazer. I am chairman of the board of Ashland Oil & Refining Co., Ashland, Ky. We are a so-called independent refining company operating 2 refineries in Kentucky, 3 in Ohio, 1 in the vicinity of Pittsburgh, Pa., and 1 in the vicinity of Buffalo, N. Y. We refine in excess of 100,000 barrels of crude oil daily, of which less than 10 percent is produced from wells owned by our company. We buy from others, principally small independent oil producers, more than 90 percent of the oil we refine. Our company owns extensive transportation facilities and limited marketing facilities. The greater part of our refined products is sold through independent oil distribtuors.

I have been an independent refiner for more than 35 years operating principally in the Middle West. I call particular attention to the area of our operations, since conditions in the oil industry vary greatly as between different geographical areas.

Twenty years ago, under the NRA, I was refinery chairman for 15 of the Middle Western States. Under the Petroleum Administration for War, during World War II, I was the industry chairman for refining for approximately the same States as during the NRA period. Thus, I am reasonably familiar with the operations of both the large and small refineries in the area extending eastward from Oklahoma and Kansas through Illinois, Indiana, Michigan, and Ohio into western New York State and western Pennsylvania.

Pursuant to your invitation, I take pleasure in presenting my views concerning the recent advances in the prices of crude oil and refined petroleum products, particularly as those advances affect the independent refiners and the public. In presenting my views concerning the mechanics of pricing of crude oil and its products, and pertaining to the general economics and competitive factors in the oil industry, I desire to point out that many conditions which prevail in the area with which I am most familiar are not applicable to certain other geographical areas.

There is a tendency on the part of many people to oversimplify the economics of the oil industry. It is a highly complex business. In fact, it is not a single business. There is little similarity between the exploratory efforts required to find new oilfields, the operation of pipelines and boats and barges, the manufacture of petroleum products, and the marketing of gasoline, tires, and accessories through service stations.

Thousands of companies and individuals are enga ed in only a single branch of the oil industry. Thus, there are bound to be widely different views and conflicting interests as between different individuals and companies in this vast industry. There are conflicting interests between the independents, and between the independents and the major oil companies. In fact, there are important differences even between the comparatively few major oil companies which many people erro-

neously think of as the oil industry. The oil industry is not homogeneous.

It is true that here in Washington, and in many cities on the eastern seaboard, gasoline sales are confined largely to a few well-known brands, all of which have general public acceptance; one gets the impression that in these areas prices are reasonably uniform. If one major company reduces prices, every other company has to follow. If one of the market leaders advances prices, the others, usually, are glad to follow, although due to competitive conditions not all advances "stick."

Sometimes a leading company misjudges the market and has to back down. In fact, any important oil company can nullify an advance. Price advances hold only when supported by current economics operating through competition. A mistake in judging the market by a large company is very costly to that company. I recall that one of the companies which took the lead in the recent crude-oil advance endeavored, unsuccessfully, to make a similar advance a few years ago. Their miscalculation of the market is reported to have cost that company many millions of dollars.

That is one reason for the inertia and the apparent rigidity in crude-oil pricing. Usually price changes, either upward or downward, are long past due before any company large enough to influence the market is willing to make the move. Probably that is the reason other oil companies generally follow so quickly as to cause suspicion. Thus, what might appear to be concerted action is actually a phenomenon of competition rather than collusion.

If there were the kind of collusion in the oil industry that many suspect, a few leaders could get together and handle the price changes in a way which would tend to disarm suspicion. Price advances could be staggered over a period of weeks if those that advance first could be sure the others would follow. Aside from other considerations, competitors in the oil industry do not have enough confidence in each other to enter into such understandings.

Mr. HESELTON. Or in the Department of Justice either.

Mr. BLAZER. Many of the things that are thought and said concerning our industry are true only to a limited degree. The fact that there are differences in the views expressed by those who appear before a committee such as yours, does not mean that individuals are deliberately misrepresenting to you; it means only that what may be true as regards the large companies may not be true as regards the small companies, or that what is true in one section of the country may not be true in another section, and that the opinions of different individuals are colored by their individual experiences. It is not surprising that the public and probably the Congress have so many erroneous conceptions of the oil industry when there are such great variances of opinion among the people within the industry.

When individual oilmen have such great differences of opinion, it is obvious that each of them cannot be right in a broad sense, even though they may be essentially correct in terms of their individual fields. Because of the complexities and inconsistencies of the business one can find evidence to prove almost anything. Data can be assembled which will support completely contradictory conclusions. Generalizations are bound to be misleading in such a complicated, competitive business. Courses of action prompted by easy generali-

zations and superficial information are truly dangerous from the standpoint of the future interest of the public and the oil industry.

The most definite impression I received from the hundreds of hours of industry discussion and debate during the NRA and World War II when the Government with the aid of the leaders in the industry was attempting to regulate the oil business, was that no one person or group of people could be smart enough to successfully substitute artificialities for natural economics.

Under the NRA, when there was a tremendous surplus in petroleum products, the Government was trying to help the industry get back to a profitable basis. During the war we were dealing with shortages, but the problems of regulation were essentially the same. No intelligent, fair-minded person could have gone through those trying periods of attempted regulation and not be aware of the intensive competition in every segment of the oil industry.

Having confidence, as I do, in the efficacy of competition, regardless of how painful, and believing in a minimum of interference with the natural operation of the economics of supply and demand, I take this opportunity to caution those who would attempt through the power of public opinion, or otherwise, to influence the action of the leaders of the oil industry as regards the recent price changes.

Probably the changes are justified, I am not sure, although no one can be absolutely certain. If they are justified, then the long range, best interests of the public will have been served. If it should develop that they were not justified, no company or group of companies can make them hold, but pending this correction, the refining branch of the industry will have taken an awful beating; any mistakes in the pricing of crude oil show up first in the prices of refined products. I want to emphasize that point. Since the product that is consumed, or products, are refined products, the economic conditions flow back to crude oil, even though due to matters which I have pointed out here, in more recent years the flow has tended to be in the opposite direction.

To make certain that you will not think I am prejudiced in favor of the price advances, or that I am a spokesman for the point of view of the larger oil companies, I should explain that our company is buying from others more than 100,000 barrels of crude oil daily, while it is producing less than 10,000 barrels per day. This advance has increased the cost of our raw materials more than $25,000 per day, and I have grave doubts as to whether we can recapture, through increases of refined products, as much as 80 percent of the advance. If I were to look at the situation from the point of view, alone, of our company, I would be very unhappy about the advance.

The independent refiners recognize the danger that the larger integrated oil companies, which produce hundreds of millions of barrels of crude oil per year, may use the extra profit derived from the recent crude-oil advance to subsidize their refining and marketing operations during the prospective period of faltering advances of refined products. In fact, I learned only yesterday of the loss by our company of more than 1 million gallons per month of railroad diesel fuel oil business which was taken away from us on a year's contract by a major oil company which did not follow the recent price advance.

Now, remember that in an independent refinery the loss of a million gallons of diesel fuel a month is no small matter. They took it away on a year's contract. That company, along with others, presumably

advanced their prices in that area half a cent a gallon. But apparently their salesmen had not heard anything about that advance.

There are large oil companies which probably would not feel too badly if, through congressional criticism and the pressure of public opinion, they were induced to drop back on the prices of gasoline and other refined products without making a corresponding reduction in the price of crude oil. That would put real pressure on the refining branch of the industry which already has been struggling with steadily diminishing margins of profit. Such a situation would be disastrous to the independent refiners.

The term "independent refiner" is applied to a large group of refiners that either are small or are not well integrated in all branches of the industry. Usually they buy their crude oil from others and frequently they market their products through independent distributors, many of whom are rightly regarded as "price cutters."

These price cutters or price marketers are much less in evidence on the east coast than in other sections of the country where they afford vital competition at the consumer-price level. The independent refiners that supply them are not popular with the major oil companies, nor with the service-station operators who sell the products of the major oil companies. Often independent gasoline, of a quality equal to that distributed by the major companies, is sold from 2 to 3 cents per gallon less than the better-known brands. In some areas more than 25 percent of all the gasoline moves at these lower prices.

I want to point out the great variety in marketing practices in different geographical sections of the country, and for that reason it is difficult and improper for one to generalize. This competition by the independents saves the public, directly or indirectly, far more than is involved in the recent price advances.

From the standpoint of the public, one of the worst things that could happen would be for the independent refiners and their customers, the independent distributors, to be crippled by a squeeze caused by an increase in the price of crude oil without a corresponding increase in the price of refined products. I call attention to the fact that during the past 20 years most of the independent refiners and their gasoline distributors that served the east coast areas have been eliminated through competitive factors.

Speaking of competition in the oil industry, how else do you explain the fact that crude-oil prices and wholesale prices of gasoline have been practically stationary for the past 5½ years. During that period the cost of wages, employee benefits, and materials have advanced tremendously.

Gasoline prices, omitting State and Federal taxes, have actually declined if one takes into account that in most areas the octane rating and the quality of regular gasoline are higher today than the octane rating and quality of ethyl premium gasoline in those some areas 5 years ago.

What I am saying is that you can buy today what was premium gasoline 5 years ago at the price of regular gasoline today. There is a usual differential between those 2 products of 2 cents per gallon. In effect, that is a reduction of 2 cents per gallon of which the public is not aware. It comes back in the form of greater mileage in today's high-compression motors. Everybody knows they are getting more

mileage out of their cars than they did 15 years ago or 5 years ago.

You will be interested to know that in January 1948, 1 month after the last previous price advance of crude oil, our company was averaging for its entire production of gasoline a price of 12.3 cents per gallon, f. o. b. refinery, which compares with a price of 12.21 cents per gallon for May this year.

Now, that may be a surprise to many people. There have been increases in the cost of gasoline at retail. In many States the greater part of that increase is accounted for by increased gasoline taxes. In other areas, the increase is accounted for by increased margins of dealers. Generally speaking, the dealers in most areas set their own margins of profit.

There have been slight increases in the margins to jobbers or the people who buy gasoline in wholesale quantities and tank-car lots and barge lots and transport trucks and distribute it out to dealers. There have been increases in freight rates and barge rates, all of which have contributed to the increase in the retail price of gasoline but which the oil industry as represented by the people who have appeared before this committee in general have taken no part of that increase.

I will illustrate it by the fact that even though we are putting out a much better grade of gasoline today, we are selling that gasoline—and I am speaking prior to this advance in crude oil and refined products of 2 or 3 weeks ago—at a lower price f. o. b. refinery than we were selling in January of 1948.

After deducting the increased cost of tetraethyl lead, which is added to gasoline just before it leaves the refinery, and actually is not a petroleum product, our present net realization for gasoline is approximately one-third of a cent per gallon less than in January 1948. In other words, there has been an increase in the cost of our lead going into the gasoline of a quarter of a cent which further deducts from these prices that I have quoted as our realization, so there is actually a difference of about a third of a cent per gallon of gasoline between what we are getting now, prior to the advance, and 5 years ago.

During that period, the cost of crude oil, during the 5½-year period, delivered to our refineries remained constant but the average selling price of the products derived from a barrel of crude oil declined 59 cents from $4.79 per barrel to $4.22 per barrel.

Now, the real significant factor in looking at the position of the refiner is not particularly what he realized for any one product but what he realizes for all of the products that come out of a barrel of crude oil. Many companies attempt to allocate the cost of making different kinds of products out of a barrel of crude oil. We do not think that there is any value in that, because you have to have a lot of arbitraries. How can the meatpacker tell you how much it costs to produce liver as compared with T-bone steak? It just all comes out of the steer. And the real significant thing is: What does the refiner derive from those products that he gets out of a barrel of crude oil?

Mr. SCHENCK. Would you want to make a correction in your statement? You say from $4.79 to $4.22 is a difference of 59 cents instead of 57 cents.

Mr. BLAZER. That is an error in typing. I hope that can be corrected; it should be. The figures in the statement are correct and the 55 should be changed to 57 cents.

Mr. SCHENCK. The 59 cents should be changed to 57 cents; I thought you would want to correct that in your statement.

Mr. BLAZER. The difference between the $4.79 and the $4.22 per barrel; yes, that is correct. That 59 cents should be changed to 57 cents, representing the difference between those two realizations.

I might apologize to this committee. I did not get finished dictating this until after 10 o'clock last night.

The actual shrinkage in our profit per barrel of oil refined was 55 cents. There is a little difference between the shrinkage in what came out of that barrel of crude oil and the actual difference in our profit. By spending millions of dollars for better equipment we were able to reduce our manufacturing costs a few cents per barrel; actually, it was a reduction of 2 cents per barrel, even though during that period we increased our wages, including fringe benefits, 56 percent.

I want to point out that that feature, which is not typical of our industry alone but of industry in general, is a remarkable one—that is, that we could actually, in our case, have reduced the cost of refining a barrel of crude oil even though during that period we have increased our wages 56 percent; and I am sure that we pay more for everything we buy that goes into the operation of a refinery, and one of the biggest products and the most important things we buy are fabricated-steel products. That goes into combating corrosion and in the maintenance of our plants.

Referring to that 55-cent reduction in our profit during 5½ years—a profit per barrel of crude oil—if we had that extra 55 cents per barrel refinery profit that we had 5½ years ago, our current earnings before taxes would be increased by more than $60,000 per day. The public has received the benefit of this saving which was made possible by our having reinvested in our business during that period far more than our total earnings. What is true of our company is true, in general, as regards the entire oil industry.

Our company earned, after taxes, during the approximate 5½ years under discussion, $52,337,000, of which we paid out in dividends to stockholders $23,795,000, leaving $28,542,000 of net earnings retained in the business, but during that period we invested in the business an additional $31,854,000 obtained through the sale of capital stock and we further invested $28,925,000 obtained by increasing our long-term debt by that amount.

Thus, the total additional investment in our business amounted to $89,321,000, which compares with total net earnings of $52,237,000. We reinvested another $48,760,000 derived from reserves for depreciation and depletion. Our combined investment and reinvestment of $138,081,000 during the period of 5½ years has great significance when one considers that our company represents, I suppose, less than 1 percent of the oil industry. Although we are one of the large so-called independents, we are small compared with the major oil companies, many of whom, I am confident, have invested much larger sums of money in proportion to their size.

I doubt that the public or the Members of Congress understand why the oil industry has been able to do such a remarkable job in meeting the tremendous increase in the demand for petroleum products.

The oil industry, historically, has been able to show large earnings. That term "large" some people say should be "good" earnings, but I think they are relatively large earnings. Some industries have earned more and some industries less. Because of the large earnings, the oil companies have been able to go to the public and obtain the additional money necessary to finance an amazing expansion required to meet the insatiable demand for petroleum products.

Except for the shortages experienced during the war period and shortly thereafter—shortages occasioned principally through inadequate supplies of steel and other materials—there has never been a shortage of petroleum products. If there had been a shortage, or if a shortage were threatened at this time, we would see crude-oil prices advance not 25 cents per barrel, but $1 or $2 per barrel. I am talking now to this question of the crude-oil advance in relation to inventories and stocks.

The reason that the public is supplied with petroleum products at such low prices in comparison with other commodities, is that profits in the oil industry have been maintained at a level high enough to generate and attract sufficient funds for expansion to keep us ahead of demand, and out of trouble. It will be a sad day for the public and for our national economy if that situation is ever changed.

Much has been said about the recent price advances in relation to inventories and current crude-oil supply. No one should contend that there is any real shortage today, but we must look to and provide for the future. If we are ever confronted with an immediate shortage, the prices of petroleum products will skyrocket. Such a shortage could not be cured overnight. There is a lag of months and often years between the initial exploratory work involved in finding new oil fields and the conversion of the oil from those fields into refined products ready for delivery into someone's automobile or furnace.

I can recall the time before we had State regulatory bodies when there were changes in crude-oil prices in a single year of as much as $2 a barrel. A feast always led to a famine, and a famine to a feast. Today, through proration resulting in the accumulation of tremendous underground reserves, the peaks and valleys have been leveled off. A constant and adequate supply of petroleum products is always available and so long as that situation exists no company or group of companies can ever profiteer as a result of shortages, real or imaginary.

Speaking of underground reserves, it is understandable that those oil companies, large and small, that own such reserves, would like to get a price for the oil they are taking out of the ground sufficient to cover the cost of replacing with new reserves. If underground reserves should become too large and too burdensome to carry, the owners, rather than hold so much oil in the ground for future generations, will become so anxious for quick realization that there will be an oversupply. There would be an actual and immediate oversupply. In that event, there will be declines in the prices of crude oil and refined products.

I am not in the confidence of the heads of the major oil companies who must make the decisions for their companies as regards the prices that they will post for crude oil, but I am sure that in studying the economics of supply and demand, and when weighing the advisability of crude-oil price increases, they must recognize that too high a price would result in the bringing out of too much oil, followed by lower

prices, and that too low a price would result in diminishing reserves of oil in the ground, which would necessitate, eventually, such high prices as to invite Government controls.

Now, I have not had the opportunity to follow in the trade papers all of this testimony before this committee. The executive head of an oil company has lots of problems, and he cannot do a lot of things he would like to. I have been sitting in labor negotiation meetings part of the time. But I understand that there has been considerable skepticism on the part of those who have questioned members of the industry about the mechanics of these prices, and I do not know whether or not the representatives of the major oil companies who have testified have adequately expressed that situation or explained it.

Maybe it gets so close home they just do not want to talk too much about it. But I do not have any inhibitions on that basis. That is even though we do happen to be the ones that posted the price of crude oil in Kentucky and maybe because we do post that price I can speak with actual knowledge. But since we have such tremendous reserves of crude oil in the ground and those in the industry who are responsible for future supplies of petroleum products must look years ahead and not look at the situation next week, it obviously becomes a question of somebody's judgment.

Now, I am sure that there are those who would say that, "Well, the people in business have only one rule and that is to make all of the money they can." Well, I do not even quarrel with that philosophy too much. But people in business also have to be not too shortsighted. They have to look at the ultimate result. And I am sure that every oil company executive is just as much interested in, and probably more worried about, what is going to happen 5 years from now than he is what is going to happen next week.

And the executive of some major oil company who announces a price increase cannot be sure he is right, but he thinks probably first that it will be supported, and otherwise he would not move out himself. He thinks, also, probably that the best interests of his company and the oil industry will be served from a long-range viewpoint by that advance. I do not concede that there is any conflict of interest between the oil industry and the long-range interests of the public.

Or, putting it the other way around, I am sure that what is to the long-range benefit of the public is to the long-range benefit of the oil industries that serve the public and vice versa.

Now, somebody steps out and announces a price advance. There has been some testimony, I understand, or a question, whether people knew about this in advance. I might tell you that the first I heard about it was about 3 or 4 days in advance when a stockbroker called me up, and he said, "Have you heard that there is going to be a crude-oil advance?" And I think he was off a day or so in his timing. I said, "No."

"Well," he said, "I got it through one of our offices, and very confidentially, that there is going to be a price advance, and it is going to be made by a certain company." He had the company wrong. But he had the right idea. I expect a person said to him, "a midcontinent oil company," and he interpreted it to mean the Mid-Continent Petroleum Co., a particular company, but anyway I do not think that there is too much collusion.

I think that things leak because you cannot—no company would advance its prices without considerable discussion within that company by their board of directors and otherwise, and there might be a leak and somebody might have gone out and bought some oil stocks in advance on the strength of that anticipated crude-oil advance, and maybe that is the way the stock market knew about it. I do not know. But it probably does not operate the way some people think it would.

Now, you might want to know how I happened to advance the price of Kentucky crude. Well, we waited a little while to be sure that it was going to be followed, because the company that advanced the crude-oil prices this year, as I recall, and I have not looked it up, but this is my recollection, also advanced crude-oil prices once during the last 5½ years, and the rest of the industry did not follow them; and they just stood out there for a while and bought crude oil at higher prices than anybody else, and they lost millions of dollars, and they had to back down. I did not want to do that, and I did not want to step out until I knew it would stick.

But pretty soon, when everybody else began jumping on the band wagon, we came along and advanced, and we advanced most of our prices 25 cents, and most of them did but only 19, because we have been waiting for years for a price change so we could equalize a discrepancy.

But it just about works out like that, and I did not talk to anybody in advance about it, anyone in the industry about the advance; that was our business. There are some that buy in competition with us, and I did not call them up to ask whether they would follow our advance. We have a rule in our company that our people cannot talk to our competitors about prices. Sometimes we would like to, but I just do not believe in taking chances.

I believe the greatest concern of the Congress with respect to the oil industry should be for the preservation of the smaller independent, nonintegrated units. The independent crude-oil producer, who often augments his own limited funds with cheap venture dollars obtained from individuals in high tax brackets, performs a real service. Probably the aggregate returns from such investments are much smaller than the investments.

The independent producer usually is a wildcatter and probably 9 out of the 10 wells he drills are dry holes, with not one in a hundred resulting in the discovery of an important oilfield. The dollars from that and many other sources invested and lost in the oil industry are not reflected in the profit-and-loss sheets of the major oil companies, many of which, incidentally, derive a large share of their earnings from operations in foreign fields. When you look at the earnings of the large companies you are not looking at the entire oil industry.

As I pointed out previously, the independent refiner and his customers, the independent distributors, who often undersell the dealers of the major oil companies, perform a genuine service, especially in the matter of keeping down the cost of distribution which is one of the principal items of cost in the industry. The major companies may not like the competition of the independents but from a long-range viewpoint, it probably provides the necessary corrective to keep them out of trouble. I cannot think of anything worse for the oil industry

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than for it to drift gradually into the hands of a dozen or more large companies.

The number of independent refiners and the percentage of gasoline distributed by truly independent jobbers has been declining steadily. In my opinion, the position of the independent refiners and their independent distributors is more seriously threatened right now than ever before—not alone because of the increase in the price of crude oil with accompanying hesitant increases in the prices of refined products, but particularly because of the rising popular opposition to these price advances, which are so essential to the independents.

In other words, I am afraid that the public's rising opposition, which only concerns them in the price of refined products, may influence the major oil companies, and probably the same people in those companies post prices for refined products as post prices for crude oil, may influence them to drop back on their prices of refined products and take the heat off of them.

But the public is not directly interested in crude-oil prices, and maybe we might find no similar reduction or corresponding reduction in the price of crude oil. As I have pointed out, and others have pointed out here, the refiners are in no position to absorb that 25 cents. Our company is probably in a stronger position in that respect than most independents. But there will be people appear before you today that are ot making 3 or 4 cents a barrel refining profit today. Others might be 5 or 10 cents. They canot stand a 25-cent advance in crude without any increase in refined products.

Now, theoretically, when they announced these advances, our company was just about recovering the advance. Now, the advances were not uniform. Some people will refer to an advance of four-tenths of a cent a gallon, and others five-tenths, and some testimony has been put in here about an advance of 1.4 cents. This industry is not that uniform.

The east coast got three times as big an advance in gasoline as most sections in the Middle West. Part of that advance occurred before the crude oil advance, and I am sure was justified by other considerations than the crude oil advance.

As a practical matter, the independent jobbers just do not operate on the east coast because they cannot buy products and bring them in there and sell them at a profit. Their margin would be more than offset by transportation and terminal charges. That has been pretty bad lately. I understand, or interpret, and nobody really told me, but it is reasonable to assume that this advance shortly prior to the crude advance was intended to correct that situation.

As a matter of fact, there had been a somewhat similar advance by one of the largest oil companies only a few weeks or a few months ago, and I am sure that their advance was justified. But it did not stick. A few large companies would not go along with it. What their considerations were, I do not know, and maybe they had in mind something like is happening now and thought that the timing was not right. But, anyway, you can just count on it, that even though most people thought an advance on refined products was justified, if any one large factor did not think so and did not advance, the rest of them could not make it stick. That is how competitive the oil industry is. That explains why when one does something, everybody

does something, if it sticks, and if they do not all follow along, then they all go back.

Questions have been asked about the uniformity of pricing in the oil industry. Well, now, there is not as much uniformity as you would think, particularly when you consider that gasoline is a stable commodity. It is like sugar in the minds of most people. You do not find every grocery store up and down the street selling sugar at a different price. I will venture in the whole market on a single day you can only find one price. Sure, some grocery store may run a special to get people in or something like that.

But gasoline varies in different areas, and it varies particularly in the Middle West, widely, on the same block, and even in the east coast where you look at the prices on the pump you think they are uniform, but if you knew how many people were buying at a concession, maybe you folks never tried it, but I will bet there is not a one of you could not talk your dealer out of a concession, if you wanted to do it—if you knew how many people were buying at a lower price, under what is called "under the canopy" prices and things of that sort, you would be amazed.

A filling-station operator will say he is posting the same price as everybody else, and we ask, "Do you give a discount to trucks?" And he says, "Oh, sure, I give a discount of 2 cents to any truck who comes in here."

"What about the fellow in a pleasure car, does he get a discount?" He says, "Not usually. If he owns some trucks or says he owns some, or if his brother does, I would give him one."

That is about the way it goes, and I could elaborate all day on that. So this business is not as well regulated from a price standpoint as some people might assume.

I am sure everyone agrees that it is entirely appropriate that your committee investigate and satisfy yourselves as to the justification for the recent advance in the price of crude oil. I hope at the same time you will recognize that any increase in crude oil prices must be accompanied by corresponding increases in the prices for refined products.

Mr. HESELTON. Mr. Blazer, you have had a copy of the questions the chairman of the committee asked when he opened the hearings on July 1?

Mr. BLAZER. I just read them this morning.

Mr. HESELTON. Do you desire to place anything in the record in response to those questions?

Mr. BLAZER. I could go down the line, and I think I have got them here somewhere, and give my answers to them, if you would like, or my explanation. Some of them I cannot answer, and some of them I have got an opinion on.

Mr. HESELTON. I think that that would be well for you to do that.

Mr. BLAZER. Well, the first question: "Do the increased prices truly reflect the operation of normal market factors of demand and supply, or are they the result of other causes?"

As I have said in my paper, I think they truly represent the long-range supply and demand as interpreted by the leaders in the oil industry. As I said before, they represent somebody's judgment, and as has been proven many times that person's judgment has not been infallible.

"Was an invitation for someone else to start these price increases issued last May by our biggest oil company?"

I have no knowledge of such an invitation.

"How did it happen that when one company initiated a price increase, all of the others so quickly followed suit? Was this an expression of free competition?"

I would say it was an example of competition; I do not know how free it is. Sometimes it is very expensive; but we did not do it because we wanted to do it, we did it because we had to. If I had waited a week in increasing the price of Kentucky crude, every little independent producer would have been on the telephone. I want to point out that the major oil companies are in the reverse of the situation in crude oil that they are in products. On crude oil, it is a seller's market, generally speaking; and it is the buyer who is on the defensive, and it is the buyer who has to meet the competition. And if most other people, or any 3 or 4 important buyers, or maybe even if 1 buyer of the largest category advances the price, every other buyer in self-defense would have to meet that advance because he is dependent upon the good opinion of his independent suppliers.

Our company buys crude oil from thousands of independent producers, and they are the people who today, and we look to in the future to, supply us with 100,000 barrels per day of crude oil. We could no more afford to alienate their support than I could afford to jump out the window here, from the standpoint of the future life of our business. If others advance the price of crude oil, we have to, and I think that that is true pretty much generally throughout the industry.

The next question is: Did the company initiating the increase in the price of crude oil do so because it had been losing business to competitors?"

I am sure that they did not. You are talking about crude oil, I assume, there; and, of course, you might say losing a supply of crude oil to their competitors might be involved. I do not think they have. It used to operate that way. I can recall more than 20 years ago there never was a crude-oil advance or decline that was not preceded by some weeks or months by corresponding changes in the price of refined products, because then we were dealing not in underground reserves such as had been built up under State regulatory bodies, but we were dealing on a hand-to-mouth basis in the oil industry. Consequently, people then did change their prices only because they could not get oil; and they only changed the price of products because of that market, and it was very often a seasonal market.

But now that we have reserves of crude oil in the ground, in my opinion, and others will argue this differently, my opinion is we do not have serious and immediate threats of shortage of crude oil. You could not have it with all of these millions of barrels.

That does not mean that crude oil is always easy to get. I noticed that question was asked of Mr. Rodman, "Do you have any trouble in buying crude oil?" We always have trouble in buying crude oil. Why do we maintain offices in 4 or 5 producing States with literally high-priced men, buying crude oil for us? They are higher salaried men than our salesmen, by far. They have their men out wearing out shoe leather and entertaining producers and loaning them money;

and someone said, "Do you loan money to oil producers?" I said, "Of course we do." It is hundreds of thousand of dollars. That is part of the price of getting crude oil. Now we would not do that if crude oil were really free and easy.

We never know for certain where our oil is coming from 5 months ahead, or even 3 or 4 months ahead. My forecast, which is based on what we are reasonably sure of, always shows a shortage of crude in relation to our refining requirements, a shortage of crude for future months. But we know that by the law of averages we will probably be able to get it if we keep working on it.

I do not know what it costs us to get crude oil, but I suppose we spend $5,000 or $10,000 a day in acquiring crude oil for our refinery operations, and we would not do it if it were absolutely easy, because these railroad commissions apparently do not let loose of so much crude that it will always be easy for the refiners to find what they want.

The next question: "How can the increases in crude oil, gasoline, and fuel-oil prices be justified today in view of our having the greatest proved reserves we have ever had, record rates of production, high inventories of products, high imports, and an excess of production capacity of a million barrels a day over current rates of production?"

We have to link crude-oil advances with refined products advances. Now, if you want my personal opinion, the crude-oil advance was not properly timed in relation to refined products prices and competitive conditions. That is the reason we have a crude-oil advance and what I refer to as faltering advances on refined products.

I think that there are probably plenty of people in the industry who would have preferred—and important people—who would have preferred not to see this crude advance at this time. But they are caught just like we were. They did not have any choice, when somebody else moved out, and particularly when one of the largest in the industry moved out very, very quickly; and that just makes up the minds of most of us.

But I agree that the products competitive situation in inventories would not have caused one to expect an increase in the price of crude oil.

"How can the fuel-oil price increase be substantiated at this time in view of the high level of stocks and seasonal ebb in demand?"

I have answered that in the one before.

"Is the increase in the price of fuel oil an expression of a policy of discouraging consumers from using oil for fuel?"

Well, now, there are implications in that question that I do not agree with. Actually, you would think that the price of heavy fuel oil is very high now, and particularly since this advance, but in our area, which is one of the large consuming fuel-oil industries, and our company is quite possibly the largest supplier of fuel oil to the steel industry, our fuel-oil prices a year or 2 ago were at least a third higher than they are now. That is even after the price advance; and that price advance has not been put into effect by everybody and in all areas. So the implication is that we are getting our prices so high that we are pricing ourselves out of the market, but actually the prices of fuel oil were considerably higher a year or 2 ago than they are now, and although there has been a recent price advance, pretty generally that

advance was preceded by much larger declines, and it is just a restoration of part of that price decline.

The next question is: "Has domestic production been so restricted so as to jeopardize or reduce supply below current demand through the manipulation of the rates of oil allowed to be produced by the Texas Railroad Commission, or other commissions?"

I think the Texas Railroad and other commissions recognize market demand as one of the significant, if not the most significant, considerations in fixing allowables. Does that, Mr. Chairman, constitute an adequate answer, or would you like me to say more on it?

Mr. HESELTON. I do not know what is adequate or what is not adequate in your judgment. I will leave that to you.

Mr. BLAZER. Let me study that a little more. As I said, they never let loose so much crude oil that the independent refiners do not always have a hard time finding enough to take care of them; but some way or other they seem to always let loose of enough so that nobody goes out of gasoline.

I do not think that as long as we have reserves in the ground like we have now, and as long as we have the refining capacity in relation to market demand, that we will ever have a serious shortage of petroleum products. But, if for any period of years we had such low prices of crude oil as to discourage wildcatting, or if there were significant changes in governmental policies as regards taxation of the oil industry—and I refer particularly to 27½ percent depletion and the allowable as current expense and intangible development cost—those have all been factors in encouraging wildcatting. There has been enough wildcatting in the past to keep our reserves of supply and our underground reserves on what I would consider a pretty reasonable basis.

In the absence of some change in governmental policies or in the absence of an adequate supply of crude oil, or inadequate price for crude oil, I think that we will never have a serious shortage. But I do not think that we will have in the near future a serious oversupply.

"Why has the Texas Railroad Commission, since the increase in the price of crude oil, now raised the amount of oil which may be produced, although stating that production still exceeds demand by 400,000 barrels daily?"

The oil industry is a pretty complex business, and I do not keep up with everything, and I did not know they had raised their allowables. I suppose, though, that at the meeting at Austin, of the Texas Railroad Commission, there were nominations probably put in for an increased supply of crude oil, which some people said they wanted and which they would purchase and refine into products, and I think that that is really what governs it pretty much; although I notice they usually scale most of the nominations somewhat.

The next question: "In what way do the sustained high earnings of the oil companies show a need for price increases to meet rising costs?"

I think that I have answered that in my saying that I think that the relatively high earnings of the oil industry are necessary in order to attract the additional capital required to meet the steadily increasing demand for petroleum products.

At this point, I would like to say that I think the oil industry has done the most outstanding job in meeting demand. It is my impression that the Government has had to subsidize some idustries to meet

demand for their services or products. Take the housing industry. It is a good bit like the oil industry, that, if you get a shortage, it cannot be corrected overnight. There are lots of segments of our industry that have been subsidized by Government. It was largely because if they had not been, the public would have suffered. But, generally speaking, the public has never suffered on account of a shortage of petroleum products, except insofar as we were denied enough steel to drill the wells to obtain additional production and to lay the pipelines to transport the oils from the midcontinent area and to build additional refining capacity. And just as soon as we began getting enough steel, there was plenty of gasoline.

And I think that these high earnings—I think the oil industry will continue to do such as we have and actually to put back into their business far more money than their total profits. You cannot attract money from the public unless you are already earning money, and they think that you are going to continue to earn it. That is when people have gone to the Government for help.

The next question: "In view of the record drilling in 1952 of nearly 46,000 wells, and a continuation of drilling through the first quarter of 1953 at the same rate as 1952, what is the need of a price increase as incentive for additional drilling of wells?"

I would say that the leaders of the industry felt that in view of the steadily increasing costs of drilling wells and the fact they were drilling them deeper, they thought a price increase was necessary to continue to drill additional wells.

As a matter of fact, you have to drill probably more wells every year than you did the year before, because, as I say, you are drilling wells today for the gasoline and products supply maybe next year, and there will be more products consumed next year than this year. That is right down on through the future.

The next question: "How far has the change in the rates for ocean tankers affected downward the price of heating oils on the western seaboard, inasmuch as the increased rates for tankers was urged a year ago as reason for a need to increase such prices?"

I do not know enough about the mechanics of the pricing on the eastern seaboard where we do not operate to be able to answer that subject intelligently.

The next question is: "Why has California, a traditionally large supplier of oil, been forced to import oil from other areas to supply west-coast consumers, and to increase prices, reportedly to meet the higher costs of such imports?"

Ordinarily I would not know very much about that, but I took a trip to the west coast not too long ago to give consideration to building a refinery out there, and I made a little study of the market, and I will give you my impressions on it.

California has traditionally been a large supplier of oil, but particularly since the Korean war which put an extra drain on west coast supplies, there has been a shortage of petroleum products in California, and they have had to import products and crude oil from other areas. One independent distributor of gasoline who is a friend of mine had to close up many of his service stations because he literally could not get gasoline. Those he did not close up, he managed to lease out to independent distributors who went over and became the

distributors for major oil companies, so those stations that belonged to him were during this period of shortage selling major company gasoline; and I understand that the crude oil from which some of that gasoline was made was imported at a loss by the major companies.

Well, when they advanced the prices of crude oil in California a few months ago, and refined products, it was possible to transport gasoline from the gulf coast, Houston area, for example, and transport it profitably and sell it on the west coast; and this friend of mine started bringing in about 4 million gallons of gasoline a month, and he recaptured those stations which had been leased out, through one device or another, to major oil companies; and he started back in business again.

But now that there has been an advance in gasoline prices on the gulf coast where he was buying, with no corresponding advance in prices in California, along with this one, why, he is back in trouble again. He indicated to me that if he could get someone to help him a quarter of a cent a gallon on gulf coast gasoline and furnish a T–2 tanker to haul products out there and reduce our rates a quarter of a cent, he could just about break even. So the independents are not all in too good shape. That is even in California.

The next question: "Will the increased prices of crude in this country now be met by greater imports from Venezuela, the Middle East, or elsewhere, because crude-oil prices there are lower, or will prices there be increased so this will not follow?"

I do not know about that. I understand one of the major oil companies increased their price in the Middle East, and maybe the others did, too. I do not know. And then someone told me yesterday they heard they were not going to make it stick. So I do not know.

I would say that to a certain extent the question of pricing in the Middle East does not have too much significance in this country, because I believe—and I am not positive—that most of the Middle Eastern crude oil delivered into this country is delivered by the company that is producing it and going into their own refineries, so it is almost just from one pocket into the other. It is not an arm's length transaction. That is not true entirely in the case of Venezuela, but to a certain extent it is true.

The next question: "Will the new foreign voluntary agreement just entered into by our companies operating abroad, permit the distribution of any world surplus of oil that might arise, such as were Iranian production again to materialize, just as it covered the distribution of the deficit when the Iranian refinery at Abadan was shut down?"

I cannot answer that because I did not know there was a new foreign voluntary agreement.

The next question is: "Do the increased prices of gasoline and fuel oil merely represent a foretaste of the higher prices which the major oil companies have intimated would follow the enactment of any policy to restrict imports?"

I do not suppose that there will be sufficient restriction of imports to affect the market price of crude oil in this country. I would think that if—and I understand the bill before the House provides for only a 5-percent import of heavy fuel oil—I would suppose that that would actually—and I am only guessing—would actually restrict the imports sufficiently that it might strengthen prices for heavy fuel oil. I do

not know about that. But I would not think that the crude-oil limitation would affect crude-oil prices.

The next question—Mr. Chairman, I believe that is all of the questions.

Mr. HESELTON. There is one other question, I think: "Are the higher prices for crude oil the result of some understanding reached to avoid enactment of policies on imports? That is question No. 17 on the last page.

Mr. BLAZER. Well, I do not know of any such understanding. I understand that here has been an effort to develop whether there was such an understanding. I do not suppose from your standpoint, or, to put it another way, I do not suppose that is a tremendously important point because, after all, most of the people in the oil industry were not just born yesterday, and that would not have to get together with an understanding to act with the same considerations as if they had an understanding. I do not know whether I make myself clear or not.

Mr. HESELTON. You do entirely.

We have 3 other witnesses, gentlemen, and the chairman indicated to me that while he would like to complete the testimony of Mr. Blazer before we recessed, he also indicated he thought we ought to recess about 1 o'clock and come back here at 2 to take the testimony of these other witnesses, 2 of whom are from some distance. I think we ought to try to extend them the courtesy of completing this testimony because we do have these other witnesses scheduled from national defense and mutual security tomorrow.

If there are some short questions, perhaps any of you who want to ask questions for the next 5 minutes, we could get through with that.

Mr. WILLIAMS. I have some of the finest people in the world, Missippians, waiting for me in my office.

Mr. HESELTON. I am under the same difficulty, but they come to me from Massachusetts.

Mr. SCHENCK. I cannot be here at 2 o'clock because I have another committee hearing. But I would like to have Mr. Blazer indicate whether he would like to say whether the increase in the value of refined products from the crude oil that he refines in his plant, with this increase, that total value is not greater than the 25-cent increase in crude?

Mr. BLAZER. As I indicated in my statement, I do not expect, or we do not expect, to recover as much as 80 percent of the crude-oil advance. In other words, if the prices had held that were posted, we just would have about broken even there, I think.

And our company, as a producer of crude oil, even though it is less than 10 percent of production, might have been on balance ahead, but we know that the advances did not hold or have not held in certain areas, and in fact a lot of people went up a cent a gallon, as Mr. Rodman said, but Standard of New Jersey looked the thing over and they went up four-tenths on a gallon.

We sell stuff in their area. So the most we could hope to recover in the price of refined products would be 75 or 80 percent of the advance in the cost of crude oil. And I would say that on balance we will be $2,500 a day worse off; that is my calculation, because of these advances. So you can see why we have not been enthusiastic about the situation.

Mr. HESELTON. I shall want to ask you a few questions to make the record complete, if you can come back at 2 o'clock. For the benefit of the other witnesses, unless there is something that develops on the floor that we cannot anticipate, I want to try to start promptly at 2 o'clock.

If those witnesses will look over their statements, to see if there is some repetition that they may simply want to get into the record but not read in full, that would help us to complete the hearing this afternoon.

We will stand adjourned until 2 o'clock.

(Whereupon, at 1 p. m., the committee adjourned until 2 p. m. of the same day.)

AFTERNOON SESSION

Mr. HESELTON. The committee will please come to order.

I regret, Mr. Blazer, that more members cannot be present, but we have two subcommittees operating today as well as the full committee, and a bill on the floor which is of some interest to other members. However, I can assure you the committee will avail itself of the record that is made here.

In that connection, I wanted to make certain points clear. As I understand it, Ashland is one of the larger, perhaps the second or third largest of what are called the nonmajor integrated oil companies, is that right?

Mr. BLAZER. We might be considered that. I do not know just where you make the dividing line between majors and others.

Mr. HESELTON. I notice that in 1951 the gross operating revenue was $28,325,929, and in 1952 it was $31,312,925; is that correct?

Mr. BLAZER. That sounds about right.

Mr. HESELTON. That the net profit in 1951 of $12,137,972 increased in 1952 to $14,249,117; is that correct?

Mr. BLAZER. That was our reported profit, but it probably gets some explanation, which I will be glad to give.

Mr. HESELTON. Let me run through these various figures and you then make any comment you choose. The net profit indicated per share in 1951 was $2.37; in 1952, $2.46. The cash dividends remained the same in each year at $1. The total assets increased from $129,968,978 in 1951 to $16,902,085 in 1952, and the net crude production in barrels increased from $2,862,542 in 1951 to $3,444,420 in 1952.

Are those figures correct, so far as you know?

Mr. BLAZER. I imagine they are. I don't carry them all in my mind.

Mr. HESELTON. Incidentally, do you issue an annual report?

Mr. BLAZER. I will give you one.

Mr. HESELTON. Will you furnish one for the committee, please?

Mr. BLAZER. Yes.

Mr. HESELTON. Now you go ahead and make such comments as you choose.

Mr. BLAZER. First, I might say that shortly after the close of our last year—that is, 1952 fiscal year—we discovered that we were not as well as as we had thought we were. One of the risks in the oil business is sometimes you think you are in a fine oilfield and you are not. That is worse than drilling a dry hole. You may not have heard of an oilfield called the Sprayberry, which is in east Texas. It was thought by him that that was one of the greatest oilfields that the world had

ever found. Geographically it was unquestionably the largest and even the reserves probably might have been estimated to be the third, fourth, or fifth largest. After they had been producing for a short while, those wells quit or began to quit, leaving about 92 percent of the oil in the ground. We were unfortunate enough to be in there, and much of the profit we thought we had in the last 2 years melted away when early this fiscal year we charged off over $8½ million of our investment there. It was not just a book charge; it was a real loss.

Also as you know, under Federal tax laws, oil companies can take credit for intangible development costs from a tax angle. In our published statements we took credit for quite a number of millions of dollars that we spent in 1951 and 1952 in drilling these wells in Sprayberry.

Early this year we found the wells had to be charged off because they had either quit entirely or were rapidly approaching that point where very few will probably produce more than a few months more. We will not get out of the ground more than possibly 25 or 20 percent of the oil we expected to. They should have been producing for many years. Instead of that they will produce for a few months more. The disparity in the earnings are also accentuated by the fact that we took credit last year for tax purposes on those intangible development costs and like most oil companies we capitalized them for profit purposes. So now we are in the reverse of that situation. We are not getting credits for it, even though we have a tremendous loss. So up to date, this year, our company is in the red, but still we are subject to considerable income-tax liability. Our estimated income taxes for this fiscal year, for 8 months, our fiscal year starting October 1, was $6,942,000 against an actual loss.

So to get a true picture of our profits, it is necessary to lump, you might say, the 1951, 1952, and 1953 profits.

I imagine they might average up for the 3 years to around $10 million a year, as compared to $14 million which we would have had if we had not found it necessary to charge off so much money in the Sprayberry.

Mr. HESELTON. Is that a matter of litigation?

Mr. BLAZER. Of what?

Mr. HESELTON. Is that Sprayberry a matter of litigation?

Mr. BLAZER. No.

Mr. HESELTON. I understood there was some litigation on that.

Mr. BLAZER. No; not that I am aware of. All that happened is that the industry spent a number of hundreds of millions of dollars developing what looked like a tremendous oilfield. The oil was in the ground all right, but due to fractures in the sands it will not produce. It produced beautifully at first, and then the gas, which is the propelling medium there, started bypassing the oil sand and going through the fractures. Wells that should have been producing a hundred barrels a day today have quit. I think that anyone in trying to evaluate the oil industry should take into account those risks. Here is a company of ours that had not lost money any year in the 29 years we have been in business, and had not lost money any month for a great many years, turns up with having to charge off $8½ million which more than offsets the earnings for the first 8 months of this year.

Mr. HESELTON. Is Kentucky Standard a substantial competitor of your company?

Mr. BLAZER. Yes.

Mr. HESELTON. They have been described in this particular article as the country's largest exclusively marketing company. There is a record there of an increase in net profit from 1951 of $9,777,133 to $10,271,684 in 1952, or an increase from $3.75 per share to $3.84 per share. Were you here yesterday?

Mr. BLAZER. No.

Mr. HESELTON. You mentioned at some length the matter of the allowables in Texas. Has your attention been called to a statement made on June 18 by Chairman Thompson of the Texas Commission in which he said that cuts in the rate of refinery operations now would mean that refiners can be back to present rates in the fourth quarter of this year? He goes on to say:

> Next year, oil stability can be well assured by reducing inventories in refinery runs now rather than later.

And he is quoted as saying:

> The refinery runs currently are 400,000 barrels daily too high, and imports are too high and both must be cut to insure stability in the oil industry next year.

Have you any comment to make on that statement?

Mr. BLAZER. Well, as a refiner, I think they are too high. Otherwise, we would not have such a weak situation in the refined products market.

Mr. HESELTON. If there were higher runs, what economic impact would that have on the price of the products?

Mr. BLAZER. Well, as I have developed earlier, I think this whole advance came from crude oil considerations, and from a long-range point of view, both of the public and the oil industry; they are probably sound. But I have also said that I questioned the timing of the advance because we have a potentially weak market situation on refined products.

Mr. HESELTON. That is, weak in the sense that it is a soft situation with the likelihood of prices reducing?

Mr. BLAZER. That is right. If I may put it the other way around, it does not appear that refined products are going to be supported at high enough advances to support the crude advance. That puts a pressure, an economic loss, on the refiners who do not produce their own crude. Of course, products markets and prices very definitely respond to supply and demand. We would have a much stronger market if the refining runs were not so high. Probably if they were down 400,000 barrels we would have a more stable market.

Mr. HESELTON. You referred a number of times in your statement to the pressure of public opinion as being a factor which those who have the responsibility of setting the prices must take into consideration.

Mr. BLAZER. I am not saying necessarily they must, but I think they do. I question whether they should so much.

Mr. HESELTON. You refer to the rising popular opposition to these price advances as leading you to feel that the increase might not stick. Was that it?

Mr. BLAZER. I think that it might not stick, partially due to that, and it would be because possibly some of the companies that are so-called market leaders might be influenced by that.

Mr. HESELTON. Of course, there is nothing wrong at all, is there, about the consuming public reacting to the price set on the product, in terms of its willingness or unwillingness to buy?

Mr. BLAZER. There is nothing wrong any time in the public wanting to buy as cheaply as they can. But I doubt if their own best interests are served if either of two things happen: If through their pressures the prices on refined products do not hold and the crude does, that puts a big segment of the industry out of business, which is a very important segment to the public in competition. I believe in competition, and I think that is the only protection that the public has. The independent refiners and their independent distributors who buy from them are in my opinion vital competition in this industry and tend to hold down prices.

Mr. HESELTON. That leads me to ask you a question which was suggested to me in quite a bit of detail. I will try to put it to you as given to me. You stated that your company supplies independent dealers with unbranded gasoline which, in turn, is sold to the public at 2 or 3 cents per gallon under the major brands of gasoline.

Mr. BLAZER. Much of our gasoline is, not all of it.

Mr. HESELTON. In New Jersey they have only one unbranded wholesaler, and the people in New Jersey think even they purchase their requirements from a major oil company. This wholesaler is the Hartol Corp. All other independent gasoline retailers selling unbranded gasoline purchase their requirements from the major companies. There is no real source of unbranded or independently refined gasoline in the State of New Jersey, even though New Jersey is the eighth largest consumer State of gasoline in the United States.

I am advised that you are interested and will help them locate an independent supplier for their multiple unbranded stations. They would like to negotiate the purchase of a hundred thousand gallons of gasoline per month, and are also of the opinion that many other dealers in a similar category would be much interested.

I will now offer you an opportunity to get back some of the product you lost. What are your reactions?

Mr. BLAZER. I would like to comment on that. I think it is most unfortunate that the independent distributor does not have a so-called independent source of supply of gasoline. I doubt if there is very much gasoline offered directly to the independent distributors in New Jersey that comes out of a so-called independent refinery.

Mr. HESELTON. That is true, is it not, generally, in the Northeast?

Mr. BLAZER. I think so. And that is really the gist of all I have been trying to say today: That although that is not true in the Middle West and most other parts of the country, if the independent refiners get the squeeze that is threatened now, what is true in New Jersey will be true in most of the rest of the United States.

Mr. HESELTON. Seriously I know this suggestion was offered to me in complete sincerity. Do you think that companies like your company would be interested in trying to build that possibility up in the Northeast?

Mr. BLAZER. I will be glad to tell you about that. We have given serious consideration to building a plant in New Jersey at times in the past. As one of the largest independent refiners and probably the largest that engages primarily in refining and not in our own marketing, and not in crude oil production in a large way, we are always looking for places where we can build an independent refinery to supply independent distributors. But there are two things that would deter us or have deterred us in going into New Jersey and that general area. One is the buying habits of the public. Actually the public on the eastern seaboard seems to think that any gasoline is poor gasoline if they don't happen to have heard of the name of that gasoline before. They are conscious of a dozen brands, maybe, and the experience of the last few years is that little-known brands of gasoline have a hard time in that area.

Mr. HESELTON. Where do you mainly market the gasoline that you refine in your Pittsburgh refinery and in the one in the vicinity of Buffalo?

Mr. BLAZER. In western Pennsylvania.

Mr. HESELTON. How about Buffalo?

Mr. BLAZER. In western New York State. We are having to meet that problem in western New York State because it is almost as bad there as it is in the East. We are greatly increasing the capacity of our Buffalo refinery, which was built originally to supply fuel oil to the steel industry and furnace oil to householders, and not as a gasoline plant.

Heretofore it has had a small yield of gasoline. But because of these conditions that we have talked about in the refineries, we are spending $10 million on that plant.

Mr. HESELTON. Which plant is that, the Buffalo plant?

Mr. BLAZER. Buffalo. And that plant is being remodeled and modernized, and will be completed early this fall. But it will be very difficult for us to probably find the market for that increased gasoline because it takes a long time to build up, apparently, acceptance for private brands in the east, whereas that is not true in the Middle West.

Mr. HESELTON. Generally, as I understand it, the unbranded sell from 2 to 3 cents below the standard brands.

Mr. BLAZER. They often do.

Mr. HESELTON. And the quality—now that I have you here, we might as well get it in the record—the quality is just as good; is it not?

Mr. BLAZER. Not always, but usually. If it is put out by our company it is.

Mr. HESELTON. I might suggest that you may have a golden opportunity now in the Northeast. If it is merely a question of convincing the consumers of the Northeast that they get just as good gas a your place at 2 or 3 cents less a gallon as they get from the major suppliers, you may be able to break into that market.

Mr. BLAZER. Maybe you would like to know how they can supply just as good gasoline at 2 or 3 cents a gallon lower.

Mr. HESELTON Why is that?

Mr. BLAZER. Simply because they have lower marketing costs. Actually, a station that sells 10,000 gallons a day costs probably two-thirds or three-fourths as much to operate as one that sells 20,000 or 35,000 or 40,000 a day. So it really means that a so-called price cut-

ter makes up enough in extra business in his station, his overhead is probably the same, his rent is the same, his lights are the same, and the only extra are his service station attendants and he probably sells enough extra motor oil, which is his big profit factor, to probably take care of that.

So the result of the two he gives away to the public the saving from this large gallonage, and the fact that he gives the public this saving, brings the large gallonage in, so there is a circle there. But one of the problems that you have in New Jersey or that area is to convince the public that it is just as good gasoline.

Mr. HESELTON. I have seen enough and heard enough of the price wars in New Jersey and Hartford and other places, and I know of current difficulties that exist in the immediate area of my own district, so it might pay to send some good man up there and survey the public opinion.

Mr. BLAZER. I said there are two factors. We have only been talking about one of them. The other factor is what this whole discussion has been about today, the margin between the price of crude and the price of refined products. We could probably operate today profitably in your area, or in New Jersey, or in New England, on a price for gasoline f. o. b. refinery of 13 or 13½ cents a gallon. That isn't a familiar figure to you when you look at the price on the pumps. That is what we would probably sell to an independent distributor for. But we are not in a position ordinarily to supply an independent distributor the gasoline at a lower price than the major oil companies. Our price is usually about competitive with theirs, but we are a more dependable source of supply. When I say "We," I mean we and other independent refiners.

The independent distributor has a lot more confidence in the refiner who looks to him for a market for his outlet than he does of a major company that is his chief competitor, because the major company may move 10 or 15 percent of their output through these independent jobbers, whereas we would reverse it. We would have 85 percent through them and 10 or 15 percent through our own. So there is that factor of confidence between the supplier and the distributor.

The distributor has to put a lot of money up, and he does not want to put his money up and maybe a year from now be squeezed out on account of a source of supply, as I mentioned in the case of California this past year or two. But there has to be the assurance, on the other hand, that the independent refiner—or a reasonable assurance—that he will have refining profit between the price of crude and the price he sells his gasoline at to these distributors.

Mr. HESELTON. Does your company operate any retail stations?

Mr. BLAZER. Not that I know of. We own some and lease them out.

Mr. HESELTON. Is that any great amount?

Mr. BLAZER. No. I suppose that 5 percent of our output, or less, would be marketed through stations that we own, and I suppose 10 to 15 percent might be distributed from there to service stations that we do not own. But the bulk of ours is sold to independent distributors such as the party that probably sent you that wire. I want to point this out: I believe that it can be done, this breaking in of the eastern seaboard. Those independents were in there, as I said,

originally, and over the last 20 years they have been crowded out. They do not go broke, I want to point out, but the pressure, economic pressure, gets so great that they sell out to their major competitors.

Mr. HESELTON. I think there are some independents in New England.

Mr. BLAZER. I am sure there are.

Mr. HESELTON. I am quite sure I know of one in Springfield. But I don't know how far that process of driving them out has progressed. Mr. Harris, do you have any questions?

Mr. HARRIS. I have not had the opportunity and privilege of being here. I therefore refrain from asking any questions for fear there might be some repetition. I have looked over Mr. Blazer's statement hastily, and I just would like to ask this one question.

I appreciate the apparently very fine discussion that you have given in your statement, Mr. Blazer, as to the importance of the adjustments in the price situation affecting the oil industry, the circumstances and conditions that would require adjustments to meet demands, and how the supplies are obtained.

I observe that you caution anyone who would try to impose certain economic controls, or Government regulations on the oil industry. Is that true or not?

Mr. BLAZER. That is correct. I don't think anybody is smart enough to take the place of competitive factors.

Mr. HARRIS. And the theories that you have had in price adjustments in the industry from the exploration program on through the refined products to the retail station is a result of that freedom of economic operation in the oil industry?

Mr. BLAZER. That is right. There are individual adjustments that naturally represent the judgment of somebody, and they are sometimes wrong. But if you leave it to poor economics, it will correct itself.

Mr. HARRIS. And it is your opinion, I assume, that if recent increases in the price of crude oil are out of line, that economic conditions will take care of it in time?

Mr. BLAZER. There is no question about it. There might be some people hurt badly in the meantime, but nobody is strong enough to fight and stop the true economics and the play of economics in the oil industry.

Mr. HARRIS. Well, when you have a really true, strong, competitive situation that exists, there will be instances in which somebody is going to get hurt, isn't that true?

Mr. BLAZER. That is right. I am worrying about those so much if we do not inject in addition to that, factors that are not economic but governmental, or maybe some times expressing popular opinion which always is on the side of lower prices for gasoline and fuel oils and so forth. But the popular opinion is somewhat the product of governmental agencies and newspapers and so forth. I only have confidence in one thing, and that is true competition and true economics.

Mr. HARRIS. In other words, you are not expressing any personal feelings as to approving or disapproving the general increase of 25 cents a barrel in crude oil, but your opinion is that that is a part of the operation and you do not think it should be disturbed, but to let it take care of itself?

Mr. BLAZER. I think that is right. If I had been the person who had the right to say about a crude oil advance, I would not have made it at this time. But that would only be my individual judgment. I believe whoever made those advances were just as sincere in their judgment as I would be or anyone else would be. After all, two people can look at the same thing and have a different opinion. People have to interpret.

Mr. HARRIS. Well, the record shows that the first advance was made back in February, and that was in California. There seems to have been no concern expressed about it. And the record shows that probably the second advance was in Pennsylvania, when apparently no one had noticed that whatsoever. That is up in Erie where you operate. Do you feel anything with reference to that 15-cent advance?

Mr. BLAZER. Let me explain that: Those are entirely different situations. They are specialized situations. Pennsylvania crude oil and the prices of Pennsylvania crude oil are not very closely related to the prices in the rest of the industry. The gasoline situation, primarily, controls crude oil, but in Pennsylvania it is the lubricating crude, the finest lubricating oil crude in the world, and its advance and decline sometimes are a direct opposite of oil prices generally. So I don't think it profits anything but a matter of supply or too much Pennsylvania crude. The California situation is comparable to that because of the distance out there and the cost of transportation, they have had a serious shortage, as I explained earlier, in petroleum and petroleum products out there, even though the rest of the country was not experiencing that.

Mr. HARRIS. The record is very clear on that, and it seems it was justified.

Mr. BLAZER. It was justified and there was no question.

Now, this other is, as I said, a matter of judgment. I expect, as I have said, probably this crude oil price advance will prove to have been justified. But nobody can say for sure, although I would have thought it would have been better to have waited until it was a little more clearly indicated. But I don't think it was collusion.

Mr. HARRIS. Of course there is obviously a difference of opinion as to the minds of businessmen in different phases of industry, is there not?

Mr. BLAZER. Yes.

Mr. HARRIS. That is all, Mr. Chairman.

Mr. HESELTON. Mr. Wolverton?

Mr. WOLVERTON. No questions.

Mr. HESELTON. Anyone else? Well, we thank you very much for coming here and giving us this information.

As I understand, Mr. Brazell, you wanted to go on at this point?

STATEMENT OF REID BRAZELL, PRESIDENT, LEONARD REFINERIES, INC., ALMA, MICH.

Mr. BRAZELL. Thank you. I have a prepared statement which the clerk has, but rather than read it, I think I can comment as we go along.

Mr. HESELTON. You want the statement to go in full into the record?

Mr. BRAZELL. Yes, sir.

Mr. HESELTON. That does not appear to me to be too lengthy a statement. I notice there are some statistics that perhaps you might not recite, but I have an idea the committee would be interested in your statement.

Mr. BRAZELL. All right, sir; we will read it.

Mr. HESELTON. And then comment as you go along.

Mr. BRAZELL. My name is Reid Brazell. I am president of Leonard Refineries, Inc., of Alma, Mich., a company owned by approximately 1,500 families, employing 160 people, or representing approximately 8,500 people.

I thank you for inviting me to appear before your committee to express my views relative to the position of the independent refineries on the recent increases of crude-oil and oil-product prices.

I can assure you, the committee, that the independent refiner is very concerned with the increase in crude-oil prices and uncertainty concerning prices for refined products and as to what he may be able to do under present conditions to avoid disaster. I will go further and state that if press reports are accurate we have good cause to be extremely concerned for we are about to close down our businesses. I want you to know that I am not speaking for our company alone, but also for all the independent refiners of Michigan. Here, today, at this hearing are representatives of eight Michigan independent refineries. Another one was supposed to be here, but he didn't get here. I would like to read into the record a wire which he sent to me. These eight independents are alive and they can stand up.

Mr. HESELTON. Would you care to have them stand and you identify them for the record, so the record will be complete?

Mr. BRAZELL. Yes, sir. Here representing the Roosevelt Oil & Refining Co. is Mr. Allen Morrow. He is a refiner at Mount Pleasant, Mich.

Representing the Lakeside Refining Co. is Mr. Brummitt. They live down at Kalamazoo.

For the Bay Refining Co. at Bay City, Mich., Mr. Bob Humphrey.

Representing the Oseola Refiining Co. at Reed City, Mich., is Mr. Gus Hanson.

Representing the Napsol Refining Co. at Muskegon, Mich, is Mr. Vern Berger.

Representing the Old Dutch Refining Co. at Muskegon, Mich., is Harold McClure.

Representing Mid-West Refineries, and they have their office in Grand Rapids and their refinery in Alma, is Mr. Woodward.

I am here representing the Leonard Refineries.

Mr. HESELTON. You have a telegram you wanted to read?

Mr. BRAZELL. I have a telegram from Mr. E. G. Guy of Crystal Refining Co. at Carson City, Mich. I received this yesterday morning at 10:30:

> We are unable to have a representative present at the hearings, but would ask you to please act for us to the extent that you can and please make clear to the committee that under the present and past prices, we have lost money every month this year. At the present prices we will apparently continue to lose money. You know how inexpensively we operate. And still the present prices do not leave us margin enough to provide a profit.

Signed "Crystal Refining Co., E. G. Guy."

These Michigan refiners have made the journey here to Washington, D. C., in the middle of July, coming from that great vacation land of Michigan. One must really have a real cause to come here at this time of the year. Those folks, as I, are charged with the responsibility of looking after the investments of their stockholders and the jobs of their employees. That group of small refiners from Michigan represents approximately 28,000 people, stockholders, and employees and their families. Looking out at the audience I see several of my friends, independent refiners from Oklahoma and Kansas, are also present.

Now to move directly to the discussion of product price increases. Independent refiners do not as a rule produce very much crude oil, if any. The whole bunch of Michigan refiners together do not produce enough crude oil to supply the smallest refinery in that State.

I would like to describe to you very briefly, but in full, the operations of an independent refiner. He is a manufacturing merchant. He purchases his raw material, crude oil, processes the crude oil in the refinery, and sells the product therefrom. It is just that simple.

It does not take any economics genius to recognize that if the independent refiner has an increase in the cost of his raw material, he either has a like amount reduction in his income or, if he is to maintain the same rate of income, the full extent of the price increase must be passed along in the form of increased product prices.

Prior to the present increase, there has been no increase in the price of gasoline f. o. b. the refinery since 1949—that is, in Michigan. During that period 1949 to the present we have had and have absorbed price increases in all materials used in our refinery operations, such as equipment, chemicals, repair and maintenance material, and during that same period, 1949 to the present, wages of our employees have been increased approximately 49 cents or about 36 percent per hour.

Other refineries have had like increases. During the period 1949 to the present the quality of gasoline has increased in Michigan from 80 octane numbers to 88 octane numbers for regular grade gasoline, an 8-octane-number increase.

In that particular bracket octane number costs a minimum of one-eighth cent per gallon. We refiners, therefore, are entitled on that basis alone to 1 cent per gallon on gasoline for the quality increase to offset the increased quality cost.

Taxes have increased. Taxes on gasoline in Michigan amount to the equivalent of 33 percent sales tax and in the country generally taxes on gasoline represent approximately a 36-percent sales tax.

Now we have a crude-oil price increase. We have had no choice but to increase our product prices.

All over the country the quality of gasoline has increased, and all refiners, independent and majors alike, are entitled to recover those added costs.

I would like now to give you some figures that will indicate without question the fact that Michigan refiners must pass on any crude-oil price increases. Recently the Michigan Legislature was considering a revenue bill that would have affected the Michigan refiner, as well as others in the oil business. There was presented to that committee a composite of refinery figures. Those figures revealed that 13 independent refineries in Michigan during a recent 12-month period processed 32 million barrels of crude oil. There was an average profit

before taxes of 11.04 cents per barrels and 5.25 cents per barrel after taxes. They employ 1,644 people and had an annual payroll of $8,850,000.

I might add that since those figures were accumulated there has been, in several refineries, a wage increase, including our own refinery, that would further reduce the profit margin; 11.4 cents per barrel profit before taxes—and now 30 cents per barrel increase in the cost of crude oil. The crude prices did go up 30 cents in Michigan. The answer is quite obvious. Either product prices must remain up, or the independent refiner goes out of business. The owners lose their money; the employees lose their jobs.

Independent refiners in the midcontinent area are, I am sure, having a rough time trying to make ends meet. Taking the published prices of various products and applying those prices to the yield of products indicate a very small margin for those refiners to process crude oil. I doubt seriously if they can do so without a loss.

You may say, "O. K., you independents need it, go ahead and raise your product prices, but the big companies should roll back their product price increase." Gentlemen, it just doesn't work that way. We cannot possibly sell at higher prices than the national brand-name petroleum products. We wouldn't last 2 weeks.

I am sure that it is unnecessary for me to remind the committee of the importance of the independent in business, whether he be an independent refiner, an independent grocer, or what have you. He is an active minority, a prod in the side of the large companies. The independent promotes keen competition between all units, large and small. We independents sometimes have some pretty rugged fights among ourselves in Michigan. However, when we are in danger, as we appear to be now, we can fight together for a common cause.

We independent refiners do not fear the major oil companies as long as their competition is developed in a free atmosphere. We know that because of our flexibility that we can outmaneuver them at every turn in the road if we are free to plan our own strategy. Secondly, we know that the major oil companies are too busy fighting with each other to pay more than passing attention to us.

We do have great fears and doubts, however, of some who profess to be the friend of everyone, individuals and corporations alike. Those fears are of the Government itself—specifically Congress.

This committee, I am sure unwittingly, in its enthusiasm to protect the public from what it thinks is a great wrong, is about to accomplish something that no other force has been able to do; that is, put all of the independents out of business. I hope the committee does not take very seriously the testimony of one witness that appeared before you early in your hearing, the person who for years has been seeing a sinister thought behind every move that has been made by any oil company of any size, one who apparently has only one thought in mind—socialize or nationalize the oil industry.

We have great faith in our Congress and the men and women that make up those bodies. We do not think that with the facts before you that you will permit anything to happen that will jeopardize the independent businessmen.

Mr. HESELTON. Mr. Brazell, did you have an opportunity to examine the questions that the chairman of the committee submitted at the outset of the hearings?

Mr. BRAZELL. Yes; I have. I have not prepared any comments. I will be glad to prepare them and send them to you. I don't want to "freewheel" them in.

Mr. HESELTON. I think that would be very helpful if you will do that. If there is any particular comment you would like to make to those of us who are here, on any of those questions, we would be glad to have that.

Mr. BRAZELL. I will prepare them and send them to the committee.

Mr. HESELTON. Mr. Harris?

Mr. HARRIS. I do not believe I have a question, Mr. Chairman. I might comment on one thing here, which is very interesting to me.

> We do have great fears and doubts, however, of some who profess to be friends of everyone, individuals and corporations alike. Those fears are of Government itself—specifically Congress.

And about two paragraphs further on the next page:

> We have great faith in our Congress and the men and women that make up those bodies.

Mr. BRAZELL. Maybe that is a little bit inconsistent, or sounds that way, but I don't think it is.

Mr. HARRIS. I understand perfectly well what you mean, and I thoroughly agree with you.

Mr. HESELTON. Mr. Thornberry, do you want to add to that?

Mr. THORNBERRY. No; I believe I have no questions.

Mr. HESELTON. I notice that the Michigan Petroleum Association issued a statement. I do not know whether this is the whole statement, but this is all there is in this particular article:

> In view of the fact that recent price increases were announced as due to increased cost of doing business, it is inconceivable that the supplying companies would not provide a share of the increase for the jobbers of the industry, commensurate with the function we perform. We have instructed our jobbers to discuss with their suppliers ways and means of bringing about such an adjustment. We have also instructed our executive secretary to communicate with the supplying companies, urging immediate action.

Has anything happened as a result of that?

Mr. BRAZELL. Well, actually I think there has been an announcement by one or two companies, I don't know that there was any relationship between that comment and the action that took place, but I understand there are two companies that have offered a little wider margin to their distributors.

Mr. HESELTON. What is the average margin now?

Mr. BRAZELL. It has been about 2¾ cents per gallon to the distributor and some of them went up to 3. It varies. I think that you would find there would be many variations in the net total of the margin. Some of them give a lesser margin and then they give a larger amount for advertising allowance. Some of them have a higher sounding margin and no advertising allowance. It is kind of like fringe benefits, you know, on wages. It varies all over the map.

Mr. HESELTON. If my figures are correct, in terms of what you said on page 3, as to the 13 independent refineries in Michigan, their profit after taxes was $169 million. Could that be right?

Mr. BRAZELL. Well, I didn't do the arithmetic, but they ran 32 million barrels and they had a profit before taxes, it says here, of 11.04.

Mr. HESELTON. That figure I gave was my hurried multiplication of 32 million multiplied by the 5.25 per barrel of taxes.

Mr. BRAZELL. Well, I don't believe—how many dollars did you say?

Mr. HESELTON. It makes the $168-million figure.

Mr. BRAZELL. Well, I am sure that is not correct.

Mr. HESELTON. What was that? No; it could not be that. I used the wrong figure. It would be $1,680,000.

Mr. BRAZELL. That is about right.

Mr. HESELTON. That, of course, is not taking into account your operating expenses or other expenses?

Mr. BRAZELL. That is profit after they get through with the operating expenses.

Mr. HESELTON. That is what?

Mr. BRAZELL. That is the profit figure after operation expenses are taken out. That is after they process the crude oil. You see, as it was pointed out to you by others here, about 70 percent of the total cost of sales is in crude oil. In other words, out of every $10, $7 of it is to pay for the crude oil delivered to the refinery before processing. Then there is added to that the refinery processing costs and other costs, distributing costs and so forth.

Mr. HESELTON. I was interested in one sentence, "We know because of our flexibility we can outmaneuver them," meaning the majors, "at every turn in the road if we are free to plan our own strategy."

Do you want to develop that a bit?

Mr. BRAZELL. Do you want to find out what I was aiming at? It seems to me as though there was a bill introduced in the Congress to have some sort of a national petroleum authority. I think you would be pretty well familiar with the author.

Mr. HESELTON. I think I am familiar with that.

Mr. BRAZELL. And with that kind of a deal, we just could not compete. You are supposed in Government to treat everybody alike, the big ones and little ones, and if you have a set of rules you would have to apply it to the big ones and little ones alike and we cannot compete.

You see, we can make up our minds, if a certain situation comes along, and it looks like we should change directions, we can do that just that quick. There are only 1 or 2 guys making the decisions. You know it is easier to get an act through Congress than it is for a major oil company to change its policy and they are so large that it takes a long time for them to turn around.

Mr. HESELTON. I was trying to get at your flexibility there. However, as long as you brought it up, let me say this to you in all seriousness: In the first place, we had a fine delegation of your legislature in at the very outset of this hearing, expressing considerable concern with what was going on in Michigan. We listened to them with a great deal of sympathy and interest. Quite probably the conditions in the Northeast may differ from those in Michigan, although I suspect they are not too different.

I have been very much interested in the response to the suggestion of a commission, and I must say to you that that is response as of now, both in the press and in the mail I have received. It indicates a very substantial interest in the possibility. Most of the press that has commented on it, however, has in effect said something like this:

If we don't like Government to control or regulate business, we

realize it has been made necessary by business itself in some instances, notably the creation of the Interstate Commerce Commission when the business people so far forgot the interest of the public that they professed that they were interested in, that it reached the stage when the public began to take concern. If and when the oil industry, which has a major responsibility, and which it indicates it knows about in its statement, reaches the stage and public opinion decides that their attitude toward their interests, talking about the public, both in terms of their economic welfare, and in terms of their own Nation's security, has reached the point where the attitude can probably be said to be "the public be damned," the oil industry itself will be the one that will be responsible for bringing regulation on itself, not any Member of Congress or any group of Congress, not even if the majority of the Congress proposed it.

They will be the ones who brought it about. The responsibility is clear and I want to make that very clear at this point in the record.

Mr. BRAZELL. I think that your observation is a very good one. You said if the oil business or the oil people, as you understand it, if they do not do right by the public, then you are going to have to do something about it.

I think there is pretty good evidence that they have been doing a pretty fair job of looking after the public, because 5½ years have elapsed since the crude price increase. We are selling gasoline at our refinery today at a lesser amount than we were in 1949. I know the public is paying more in some cases than it was a few years ago. But for the most part that is an increase in taxes or it is an increase in the margins that the dealer elects to put in effect. He can raise his price.

In fact, a whole gang of them did that one day up in Lansing, Mich., just recently. They said "Well, we are going to raise the price." They did and they got an extra cent. We didn't get any of it. This happened in several other places, where the dealer put an increase in, and the cent increase went on. I don't quarrel about it. But I would like to have the record show the facts that it is not the refiner, it is not the one that you call the oil business, or think of as the oil business, it is as a general thing the dealer, the marketing end that moved some of those prices up. The refiner has not had the increase. Yet he has spent millions of dollars to equip himself to make the quality of product that the public has demanded. It just seems to me that maybe the oil industry has attracted a lot of attention for some reason, they seem to be people that folks like to talk about. Maybe it is because it has a commodity that is used by most everyone. But let's take a look at the price of an automobile. I don't want to pick on the automotive industry, as they are our customers. But you know the price of automobiles has gone up quite a lot. Take a look at the price of milk around in a few places. It goes up. The price of practically every thing has gone up. That is, except petroleum products. I recognize what you are thinking about. Incidentally, I would like to make one other observation:

I heard, with some amazement, statements that were made in here and no one refuted them, that the price of gasoline in Washington, D. C., was the same all over. I am sorry that Mr. Springer is not here. I could let him in on a secret. I am rather a curious sort of

an individual, so I said to a friend of mine who happens to be in the room now, who lives out toward Silver Spring, "When you come down to work in the morning why don't you stop at a few service stations and see how the prices are, if they are all the same. Don't go out of your way."

He stopped at a few out there on the way in. At Georgia Avenue and Piney Branch Road, 3 service stations there, all big companies, and the regular-grade gasoline at 1 station is 29.7, on the other corner it is 29.3, and on the other it is 28.9.

Then going on down the street a little farther, there is another major oil company station that sells at 27.9, further down is 28.9, and you come down to 13th and Taylor and you will find one at 28.4. That 28.4 price and the 28.9 price are the same company's service stations, and a pretty big outfit, too. So there is a difference. They are not all the same.

Mr. HESELTON. Will you let me in on the secret of where the 28.4 station is?

Mr. BRAZELL. Yes. I will just give you this list.

Mr. HESELTON. I wanted to ask you 2 or 3 more questions: Does your company sell any products to the major oil companies?

Mr. BRAZELL. Do we?

Mr. HESELTON. Yes.

Mr. BRAZELL. Occasionally; yes, sir.

Mr. HESELTON. On what basis?

Mr. BRAZELL. On our posted price basis less a quarter of a cent a gallon. If we sell to another refiner, it has been a custom that we sell at a quarter of a cent off the posted price.

Mr. HESELTON. Is that true of your associates who are here?

Mr. BRAZELL. I believe it is. I don't know too much about their business because I have to keep so busy looking at our own, to keep them from getting our customers.

Mr. HESELTON. Let's assume it is, unless somebody registers a dissent here, and wants to speak for himself. You heard Mr. Burks say yesterday that the price reductions in distillates which his company made in the last 10 days were passed back to the refiner. Has this had any effect on you?

Mr. BRAZELL. A cut on the east coast has not as yet had an effect in Michigan. But I would like to state this fact, that in Detroit, which is a large consuming area, two companies that are large marketers of household fuels have not raised their price at all. Others went up eight-tenths of a cent a gallon generally, and that varied, too. But that was the top one. That was the price Standard of Indiana raised theirs. We raised ours clear up to the top figure because we don't recover quite all of this increase.

Mr. HESELTON. Has there been any reduction since that time?

Mr. BRAZELL. Not to my knowledge.

Mr. HESELTON. If all the companies do so reduce, will that affect you?

Mr. BRAZELL. If they do what?

Mr. HESELTON. If they do so reduce the distillates, the supply companies.

Mr. BRAZELL. Did you say if they overproduce?

Mr. HESELTON. If all the supplying companies were to reduce on their distillates would that affect you?

Mr. BRAZELL. Surely. We can't sell at any higher price than the others.

Mr. HESELTON. Just as a general question, you have said probably as well as it could be said, but if you care to enlarge on it a little bit I am curious as to how you can compete with an integrated company.

Mr. BRAZELL. With an integrated company?

Mr. HESELTON. Yes.

Mr. BRAZELL. In the first place, we consider them fair game. There are many ways. They have these service station deals which you heard Mr. Burks describe, and I think you could have as many variations as you almost have service stations. The deals are different but they have a fellow—let's assume, that is running a service station—he owns the station and has been handling their products maybe under a lease and maybe not. Then his lease runs out. Well, he has had a certain type of margin. We go in and offer him more margin. He says, "Well, I can make some more money." Se he becomes a customer, and changes his brand.

Another thing, they know that if you have the proper type of equipment, the independent, as Mr. Blazer indicated, makes as good or better quality than the majors. I can tell you in our own case, in our company, we have a regular grade gasoline that is 88 octane number. Well, the Indiana company, octane number there now is 86, or 86.5, something like that. But there are some other competitors. Sun is up around that 88 number. So we have to keep up our quality. These people know that—the ones that are in the business. They know the quality is good, they know the service is good, and sometimes they might like to come around and talk to the vice president of marketing or maybe they want to talk to the president. They just come walking in and put their feet up on the desk and sit there and talk a while and go back. They can't do that with Gene Holman because he is too busy or with Harry Burks, but they can with us. They kind of like to come around and do that once in a while.

We put out a new gasoline the other day. I don't like to use this as a forum to make an announcement, however, it has been well announced all over the area.

Mr. HESELTON. Do not worry about that; everybody else thinks the same of it.

Mr. BRAZELL. But noting that we were going to eventually have the quality of gasoline go up, and up, and up, and it has been for several years, since the war, we decided that we needed something to attract attention and help us get some more customers. So we put out an announcement to the public and made available to them on the 16th of June a 96-octane premium gasoline. We are charging a price of a cent a gallon above the price that we would have charged for a regular type of premium gasoline.

It just happens that is about the highest octane gasoline there is any place in the United States. I don't know of any other. The public seems to be liking it pretty well, and some of these new cars—I heard you, Mr. Chairman, say you had a Buick automobile—we had the automotive engineers up, and we had a dynamometer. The big three, General Motors, Ford, and Chrysler were there. We had this dynamometer. We took a new Buick and put in 91½ octane gasoline in the car and took the tests, the power, and so forth that

was given out, and then we switched over to a 96 octane gasoline, tuned the thing up to the top, and then we got 10 percent more power, which showed up on the dynamometer, on the 96 octane gasoline, than it did on the 91½.

The price is 3 percent more, but they have a chance to pick up 10 percent more power. If you picked up a little bit over 3 percent more power, you could still buy the gasoline, pay the extra cent a gallon for the gasoline, and still you would make money on the deal.

Mr. HESELTON. I take it you and your associates have been able to successfully demonstrate to a large part of the consuming public that you have a real quality product even though it does not carry a national brand name.

Mr. BRAZELL. It has a brand name, but it is not national.

Mr. HESELTON. That is what I mean.

Mr. BRAZELL. I am quite familiar with the operations of the independent refiners. I think you may remember my having appeared before you previously. My last occasion was when I was director of refining at the start of the PAD over here, the Petroleum Administration for Defense, so I have been fairly familiar with what goes on in these refineries and their problems. An independent refiner has a lot of problems. He has to stay alive somehow, and they have to get enough money to build the equipment required to make the quality of product that is necessary.

To get that money he has to have something to attract backers to loan him a little money, because he does not have enough in the till, his operations are too small. He has to pay that back out of profits after taxes.

Mr. HESELTON. As I understand your position, you and your associates, definitely do not want to see any rollback in the products prices?

Mr. BRAZELL. We couldn't stand it.

Mr. HESELTON. That is, without a similar reduction in the price of crude.

Mr. BRAZELL. That is correct. It is just very simple. Frankly, these major companies are kind of weak-kneed when it comes to a little pressure from the public. Their public relations departments seem to be running their companies somewhat. You say that is all right. But you know, when you start scaring them around, and getting them up here, and asking them a lot of questions, you might cause them to do something that would really fix us.

Mr. HESELTON. I must add that I have not seen any trembling of knees to the point of their knocking or anything like that. I will say I hope they do get a little scared. It might be a good thing for the public if they did. But I do not want them hurting you.

Mr. BRAZELL. No, that is right.

Mr. HESELTON. I think your case is a perfectly sound one.

Finally, what is the situation now in Michigan with reference to the legislative committee? Has any action taken place?

Mr. BRAZELL. Yes. I think you probably discovered that they had little knowledge of what they were going to do. They liked to get headlines, some people do that sometimes, and they are going to investigate somebody, and they jumped on the oil business. That is what they are doing out there. I think you folks questioned them

sufficiently here and found Mr. Broomfield was armed with no answers and I think he had a very vague idea what he was going to do. Since I have been over here, my office told me I have received a letter from a fellow who is apparently counsel or going to be for their committee, asking us to submit information about prices, and asked me to make myself available to talk to him in about 2 weeks. I don't know what is going to happen.

Mr. HESELTON. Apparently you are going to have a rather heavy extracurricular activity.

Mr. BRAZELL. It sounds like it.

Mr. HESELTON. Are there any further questions? Apparently not. We do want to thank you very much, and your associates, for coming in and giving us the benefits of your experience.

Mr. BRAZELL. These fellows are back here and they are all live ones today. They are all here and I just wanted you to know that we do have independent refiners. There are a lot of companies other than Standard and Socony-Vacuum and Phillips.

Mr. HESELTON. We are very happy to have each of you gentlemen here. We appreciate your taking the trouble.

Mr. BRAZELL. Thank you, sir.

Mr. HESELTON. We have two further witnesses. I do not know how long their statements are going to take. If any one of the Michigan gentlemen care to add anything briefly, the committee would be happy to have it in the record, or if they feel they have been adequately represented, and I must say I think they have, we will let it go at that.

All right, then, the next witness is Mr. Smith of the Vickers Petroleum Co., Inc., of Wichita, Kans.

STATEMENT OF J. B. SMITH, EXECUTIVE VICE PRESIDENT, VICKERS PETROLEUM CO., INC., WICHITA, KANS.

Mr. SMITH. I have prepared a statement here which I can read, or summarize in the interest of conservation of time, if you want me to.

Mr. HESELTON. It is only four pages long. I think you might read it and we will get along just as quickly.

Mr. SMITH. All right.

My name is J. B. Smith. I am executive vice president of the Vickers Petroleum Co., Inc., Wichita, Kans. We are an entirely independent company with no major company affiliation. We are producers and refiners of petroleum and its products. We employ approximately 250 people, and they and their families depend on us for a living. Our production of crude oil is small, about 2,500 barrels per day. We refine about 10,000 barrels of crude oil a day at the small town of Potwin, 35 miles northeast of Wichita in Butler County, Kans. We operate about 125 miles of crude-oil-gathering lines connected to our plant. Obviously we buy 7,500 barrels of crude oil per day and, since the cost of crude is about 70 percent of the entire cost of the products we manufacture, the price of crude oil is of major concern to us.

In this statement I shall not attempt to discuss the recent 25-cent-per-barrel increase in the price of crude oil except to say that we feel, as producers, that the increase is more than justified by the increased

costs of oil discovery and recovery that have occurred since the last increase in crude-oil price in 1947.

Our company was started 35 years ago by J. A. Vickers. We have been in continuous operation at the same place ever since. We were one of the pioneer refiners in Kansas and are one of the oldest refiners in the entire midcontinent area. At the start we processed 300 to 500 barrels of crude oil daily at Potwin and sold the products locally. By plowing profits back into the plant and borrowing money from time to time the refinery has been expanded to its present size. We are still a very, very small segment of the industry, refining less than 0.2 percent of the crude refined in the United States.

Just staying in business has not been easy. Competition in our area has been extremely keen. Since the discovery of oil in Butler County in 1916, 15 or more refineries have started in business there; at one time there were 6 refineries in the county seat alone. The uneconomic and the timid have fallen by the way and today there are just 4 refineries in the county, 2 major and 1 other independent. Vickers has continued to exist and grow through two major wars, a police action in Korea, the worst depression the country has ever known, times of crude-oil shortages, times of product excesses, and other adversities, many of which seemed almost impossible to surmount at the time they occurred.

Jack Vickers, the founder, guided the company through its first 23 years until his death in 1941. He left the company to be held in trust for his beneficiaries—his widow and eight children. Today the entire capital stock of the company remains in the trust. There is no other ownership of any kind, no marketing subsidiaries, no producing subsidiaries, no financial connection with or by any other individual or group.

Up until 1951 improvements and new processes were added gradually to keep up with the improvement in quality of products. By 1951 we had, over the elapsed 33 years, built our refining capacity from the original 300 barrels daily to a figure in the neighborhood of 5,500 barrels per day.

In 1951 it became apparent that in order to compete with big companies we must (1) increase our capacity and thereby decrease our unit cost of operation to somewhere near that of our big competitors, and (2) install catalytic cracking of some similar improved refining process to keep us in the accelerating quality rate. It was obvious that we must choose between doing these two things or discontinue refining operations.

This problem was no different than that faced by other small refiners in the midcontinent area. Several, including one in Wichita, the Bareco Oil Co., of our approximate size and operation chose to close down. We, however, basing our judgment on conditions then existent and projections built on refined-products prices, labor costs, crude cost, and other factors in effect in late 1951, decided to enlarge and improve our plant provided we could borrow the money for the expansion.

We were able to negotiate a loan to cover the cost of the expansion. The entire assets of the company were pledged to secure the loan. During 1952 and early 1953 we completed most of these improvements and enlargements. Some minor projects are still under way. The

cost of the expansion and modernization will be very close to $4 million.

We now have a plant capable of running 10,000 to 12,000 barrels of crude oil per day, manufacturing domestic gasolines, tractor and Diesel fuels, kerosene, and domestic and industrial burning oils. This entire output is sold in the seven-State area of Kansas, Nebraska, Iowa, Missouri, Minnesota, and the Dakotas.

I might add it is in parts of those 7 States; we do not blanket the 7 States. Some of the fuels are sold to brokers and consumers, such as railroads. The rest of the fuels and all of the gasoline is sold by us to independent distributors. We do not own or operate bulk plants or service stations and as previously stated do not have any marketing subsidiaries or affiliations.

These independent distributors to whom all of our gasoline and most of our domestic fuels are sold are all small-business men and they in turn sell these products through their own service stations and bulk plants and to dealers who own their service stations. A large part of all of the gasoline sold by us is marketed under the Vickers trade name. The rest is marketed under private trade names.

Whether sold under the Vickers trade name or under a private trade name, it is all sold by independent marketers, many of them so-called low-cost marketers, selling at retail prices under their major competitors. In great part the prices at which these people and others like them retail gasoline is largely responsible in our area for the low price at which the consuming public buys gasoline. We estimate that Vickers gasoline is sold through 250 to 300 service stations in our marketing area.

Refiner's costs have mounted steadily. Quality of gasoline has gone up abruptly. For each increase in quality, the refiner has had a corresponding but increasingly greater advance in the cost of manufacture. The last general increase in the price of crude oil was in 1947, very late in the year. The last full year of refinery operation was the year ended December 31, 1952.

A comparison of 1952 versus 1947 shows that even before the crude advance of June 15, 1953, Vickers and others like us suffered because we are caught between the relentless jaws of rising costs and low prices of refined products. Vickers' profits from refining in 1952 were very small and unsatisfactory—about one-fourth of 1951; and 1951 profits were modest when considered in the light of investment in facilities. The first 5 months of 1953 we actually operated our refinery at a loss. June figures are not yet available but they will show small, if any, improvement.

In 1952 we ran only 12 percent more crude oil than in 1947 but our operating costs were up 46 percent.

Realization from a barrel of crude oil in the same period decreased 72 percent.

Our new catalytic cracking unit went on stream February 7, 1953. As previously stated we suffered a very substantial loss in our refinery operation the first 5 months of 1953. Admittedly, we had the unusual and nonrecurring cost of putting a new unit on stream and getting it down to settled production, but even so had we been able by some magic formula to have operated at normal costs we might conceivably, as an optimistic guess, broken even. Certainly, by the wildest stretch of imagination, we would not have made a sufficient profit to

provide orderly retirement of the money borrowed to modernize the plant.

Earlier I purposely made the point that Vickers has been in business through thick and thin and has held its own through adverse conditions and intense competition for 35 years. That, in fact, we are one of the very few independents still in business. It is possible for a company to exist a short while on luck alone, but 35 years of continuous, successful, and expanding operation indicates good management.

We believe that no one can successfully contend that ours is not a well-managed and prudent company. The only conclusion that can be drawn, therefore, is that we and others like us were in need of higher prices for our products even before the June 15 crude-oil advance. We must of necessity sell at higher prices to offset the increased costs of crude oil, higher product quality, labor, investments, and taxes or we cannot remain in business.

Mr. HESELTON. Mr. Smith, can you supply any information to the questions the chairman asked here?

Mr. SMITH. I did not have a chance to study those questions and I would prefer not to answer them without studying them.

Mr. HESELTON. What I have in mind is, Do you care to have permission to submit them for the record?

Mr. SMITH. I will be glad to send my answers in; yes.

(Mr. Smith later stated that the questions were inapplicable to the operations of the Vickers Petroleum Co. and nothing could be added to the testimony already given.)

Mr. HESELTON. I take it in the area in which you market, there has been an increase since the crude oil increase, an increase in the price of gasoline?

Mr. SMITH. Yes.

Mr. HESELTON. Has there been any change in that increase at all?

Mr. SMITH. There has been no change in our announced price increase—the price at which we sell our products. Some of the companies advanced prices and I understand that there is some question whether they may "stick" or not. I do not know whether or not they will "stick."

Mr. HESELTON. Do you make fuel oils?

Mr. SMITH. Yes.

Mr. HESELTON. What about the situation there? I take it in the fuel oils there was an announced increase, is that right?

Mr. SMITH. Yes.

Mr. HESELTON. And since that time there has been no change?

Mr. SMITH. So far as I know there has been no change.

Mr. HESELTON. For the committee, I want not only to thank you but to compliment you on a concise and interesting statement with reference to the operation of your company. I know it will be of interest to the other members of the committee when they are able to read the record. Thank you very much.

Mr. SMITH. Thank you, sir.

Mr. HESELTON. Now we will hear from Mr. T. A. Helling, of the El Dorado Refining Co., El Dorado, Kans.

STATEMENT OF T. A. HELLING, PRESIDENT AND GENERAL MANAGER, EL DORADO REFINING CO., EL DORADO, KANS.

Mr. HELLING. Mr. Chairman, I have a very short report, and with your permission I would like to read it.

Mr. HESELTON. A short statement that you would like to read?

Mr. HELLING. Yes, sir.

Mr. HESELTON. That is perfectly all right.

Mr. HELLING. First, I want to thank the committee for inviting me down here. Secondly, I want to corroborate and confirm what was said by Mr. Rodman, Mr. Brazell, and Mr. Blazer. I subscribe fully to what they had to say. The third thing that brings me here is the fact that we are concerned about our very corporate existence. We are really scared the things we hear about will be taking place.

In other words, we are concerned to know whether we are going to be privileged to pass on to our customers any increased costs we may have in raw material, labor, or other expenses.

My name is T. A. Helling, president and general manager of the El Dorado Refining Co., El Dorado, Kans., by whom I have been employed since 1918.

Following the discovery of the El Dorado pool our company in 1916 built its refinery with a capacity of 600 barrels per day. Five other refineries were built in our town at that time, only two, including ours, survived. Our plant was termed a skimming plant and by 1927 had reached a capacity of 3,000 barrels per day.

At that time antiknock-quality gasoline was being offered by competing refiners, so it became necessary for us to install cracking equipment to furnish our jobbers the grade of gasoline they required. Our first cracking still processed 2,000 barrels per day of cracking stock, from 5,000 barrels per day of crude oil. Later another cracking still was added and other improvements added, which further increased our crude-oil capacity to 9,000 barrels per day.

High compression cars were progressively calling for a better antiknock motor fuel. We tried to stay competitive with the use of the equipment we had. By late 1951 we found that higher octane requirements were developing. To make the grade of motor fuel we needed to keep our jobbers competitive with other refiners required the installation of expensive equipment. We seriously debated whether to undertake the modernization of our plant or close down and sell our obsolete equipment.

Other small plants in our area were in the same position and one plant decided to discontinue operation. Our people instructed me to investigate the matter thoroughly, which was done. We concluded to install catalytic cracking, with supporting equipment, and contracted for a plant of sufficient size to enable our crude facilities to operate at ten to twelve thousand barrels daily.

At that time the Interior Department, through the office of Petroleum Administration for Defense, was urging all refiners to enlarge their refineries, especially in the production of high-octane-value products, so the facilities would be available for defense if needed.

To make the plan attractive taxwise a system of rapid writeoff or amortization was given. Certificates of necessity were issued, which in addition to the accelerated depreciation also extended the certificate

holder certain advantages in acquiring critical and controlled materials. We were issued a certificate of necessity on our project.

Our estimate of total costs of the project was that it would not exceed $3 million. Actually, we spent almost $4 million. The increased expenditures were largely the result of higher labor and material costs brought on in part by the lengthy strike in the steel industry.

Financing of our project was arranged through several banks in our area, and was arranged over a 5-year period, the same time factor used in our certificate of necessity. At the time our cracking unit was contracted for, it appeared from product prices then prevailing that we could handle our debt payments without difficulty. Our new facilities were completed and placed in operation in January of this year.

Between the time of contracting for our unit and its completion, the product realization of a barrel of crude declined 20 cents and leaves our net far below the figure necessary to retire our debt as it comes due. We are presently faced with an immediate further increase in our labor costs. Several of our large competitors have increased their wage rates recently, following the pattern of the steel industry. Our employees who are unionized have demanded the same increase from us.

I am here at the request of the committee to give my views as an independent refiner regarding the recent increase in the price of crude oil and refined products. I am not familiar with conditions prevailing in other areas, but in our area, and so far as my company is concerned, I feel that the crude-price increase was full justified and compensates the producer in part for his increased cost of labor and material.

I can speak with some experience on the subject inasmuch as we produce about 1,800 barrels per day of crude oil. The remainder of our crude-oil requirements are purchased from other producers, paying the prevailing market price now in effect. In other words, we purchase for processing in our plant five times the amount we produce ourselves.

Labor and material costs in our production department have gone up tremendously since 1947, the date of the last change in the price of crude oil.

As for our refinery, our company after several days of thought posted the increased price, and we very definitely feel that we must increase the price of the products we produce from this crude a sufficient amount to offset our increased costs. As a matter of fact, we feel that product prices were too low before the crude-price change and should have been or should now be further increased to take care of our increased labor and material costs. Our financial obligations cannot be met from the net earnings we now have.

Our company, by way of explanation, is a closed corporation, since 4 families and a few of our employees own 95 percent of our stock. Our stockholders have been very cooperative in being willing to forego dividends when conditions are unfavorable, but they nevertheless feel that they are entitled to a return on their investment. Frankly, they look with alarm on present conditions in the refining branch of the oil industry, and particularly on our own financial obligations, for the reasons above recited.

As information to the committee, I wish to explain further that our operations in addition to refining and producing involve also the operation of a fleet of 250 tank cars, crude gathering facilities, and a major stock interest in a retail marketing company. All of these operations are considered as refining properties for the purpose of determining costs and returns. Our production department operations and returns are separate.

Normally we assemble and test annually about 20 wildcat blocks. This year we are testing 22 deals of this kind, but due to our unfavorable financial position we made a deal with other parties to drill and test the acreage free of cost to us for an interest in the acreage being tested. In other words, we are giving up for lack of financing part ownership in operations that we normally would handle ourselves.

Our refinery is one of the oldest plants in Kansas and provides employment for a considerable number of people. We want to stay in the refining business but to do so we must pay the producer a fair price for the crude oil he produces; operate our plant and other facilities so we can pay a fair and just rate of wages to our employees; produce and supply our jobbers products of equal quality to our competitors at a price which permits them to sell to the public at competitive prices and retain a profit to themselves; and have left for ourselves a return sufficient to pay our debts and, we hope, a dividend to our stockholders. This we cannot do unless we are at all times privileged to increase the selling price of our products sufficiently to take care of increased costs of raw material, labor, and other items.

Mr. HESELTON. Would you, too, like to have an opportunity to submit to the committee such answers as you care to make to the questions asked by the chairman?

Mr. HELLING. I would like to.

Mr. HESELTON. The clerk will furnish you with a copy and you may have that privilege.

(Mr. Helling later stated that the questions were inapplicable to the operations of El Dorado Refining Co.)

Mr. HARRIS. Mr. Chairman, on that point I am sure that Mr. Helling and the other members representing the independent refineries will be glad to respond to those questions as they apply to their operation. But it will be recalled that many of the questions submitted by the chairman apply to the larger companies who have extensive integrated operations.

Mr. HESELTON. That is right.

Mr. HARRIS. I am sure in all fairness that some of these witnesses representing the independent groups will be able to give categorical answers to all of those questions because they do not relate to their activity. I am sure the chairman will have that in mind when he receives the replies.

Mr. HESELTON. There is no doubt about that. I assume that all of you understand that if a question is outside the scope of your own experience or as to which you do not feel you have any means by which to furnish any information to the committee, it will be perfectly clear to simply state you have no answer that you care to make on that.

Mr. HELLING. Yes; I understand.

There is one other angle I would like to inject into this discussion. I do not believe the committee realizes how thin the margin of profit is for an independent refinery. We spent, as I told you, $4 million to modernize our plant. It started in operation in January and, of course, it was rough and unsettled for at least a month. But during the months of March, April, and May we had a total realization from the products we made of $3.59.

Of that amount our crude cost was $2.70; that is, laying crude oil at the refinery door, or 75 percent of our total recovery. We had operating costs of 21 percent a barrel which covered, of course, in addition to refining costs, our traffic department, our sales department, and all the things that are necessary to sell a gallon of product, leaving 4 percent for our stockholders to pay their debts, dividends, and tax.

If this crude-price increase is not reflected in refined-oil prices, you can readily see that the El Dorado Refining Co. cannot long survive as an independent refiner.

Mr. HESELTON. What is your marketing area?

Mr. HELLING. We market in Kansas, Nebraska, Missouri, and Iowa.

Mr. HESELTON. Throughout all of those States?

Mr. HELLING. Throughout most of the entire States.

Mr. HESELTON. There is one point in your statement I would like to have a little further information on. You said at page 3:

> As a matter of fact, we feel that product prices were too low before the crude-price change and should have been or should now be further increased to take care of our increased labor and material costs.

Mr. HELLING. That is right.

Mr. HESELTON. Do you have any estimate of how much further increase there should be?

Mr. HELLING. Only to this extent, Mr. Heselton: That we contracted, as I told you in my talk here, for a catalytic cracking plant in late 1951. By the time we got that plant completed and ready to run, which was January 1953, the market value of all of our products recovered from a barrel of crude had declined 20 cents a barrel.

There has been a lot of discussion here about gasoline and burning oil and distillates, as you call them, but no recognition is being given to No. 6 residual fuel oil. In other words, residual fuel oil was selling for about $1.75 a barrel in the fall of 1951. By January 1953 we were selling that same material at 90 cents a barrel. You can readily see that we need something to recoup the profit that we should have, which we lost.

Mr. HESELTON. But are you in any position to give any estimate on what would be necessary in order to accomplish what you have in mind?

Mr. HELLING. I do not know what a refinery is entitled to make, Mr. Heselton. We are making, as my figures indicate, about 13 cents a barrel. We cannot pay off $4 million on that and pay the Government taxes and leave a little for our stockholders.

Our earnings prior to that time were better than we are talking about. It might be interesting for you to know what some of our profits were. In 1952, by the way, in that year we lost money due almost entirely to the fact that our refining equipment—I am talking

about the refining division—had become so obsolete that we could not make the grade of product we needed except by shipping in high-cost, high-octane blending material.

We lost money during 7 months of 1952 and made a little money in 3 months. We were shut down completely the 12th month, tying in our new equipment which, of course, could not be avoided and had to be done, but which is very expensive to do.

In 1951 we had a net profit in the refining division of 18 cents a barrel. In 1950 it was 18 cents a barrel. It was 6 cents a barrel in 1950 and a loss of 21 cents a barrel in 1949. The loss, there again, was occasioned by the fact that residual fuel oils went down in price.

With an old-type cracking unit you make a lot of residual fuel oil, and any variation in that market seriously affects your income. Of course, we have improved that situation with this installation of this catalytic equipment.

Mr. HESELTON. Of course, this necessity of a substantial investment for new equipment can be thoroughly understood by anybody, and it is impact on your business. I am wondering if that is characteristic of the independent refiners. Do you know if they have been under the necessity of making that further capital investment?

Mr. HELLING. I think they will have to, if they expect to survive. In some areas they may not have to go quite as far as we did. They may put in catalytic reforming, which is not quite so costly. But in the ordinary plant of our size, the catalytic plant will cost about 3 million, and the supporting equipment, the tankage and all of the things that are necessary when you modernize a plant such as ours it will probably make the cost around $4 million.

Mr. HESELTON. Who constitutes your major competition in your marketing area?

Mr. HELLING. Do you mean the majors or the independents?

Mr. HESELTON. Either.

Mr. HELLING. In our town we have 10 grades of gasoline for sale: Skelley, Continental, Standard, Socony, Phillips, Vickers, El Dorado, Derby, and one or two others. Our competition, though, is largely with the larger companies. I am not referring especially to what is termed the major company, but to a large company such as Skelley, Phillips, and that type.

Mr. HESELTON. I assume there has been an announced increase in the product prices after the crude-oil increase in your area?

Mr. HELLING. That is right.

Mr. HESELTON. Has there been any change in those prices since the increase was announced?

Mr. HELLING. Not that I know of.

Mr. HESELTON. Any questions?

Apparently there are no questions.

In behalf of the committee I also want to thank you and compliment you on your comprehensive but short statement. It will be very helpful to us.

Mr. HELLING. Thank you.

Mr. HESELTON. The last witness we have scheduled for today is Mr. Elmer E. Batzell, of the Independent Refiners Association of America, Washington, D. C.

Mr. Batzell?

STATEMENT OF ELMER E. BATZELL, OF THE FIRM OF MEYERS & BATZELL, WASHINGTON, D. C., ON BEHALF OF INDEPENDENT REFINERS ASSOCIATION OF AMERICA

Mr. HESELTON. Mr. Batzell, I know there is a bill up on the floor that is of very great interest to not only other members of the committee but the members who are here. The hour is getting late. I have in mind that we may even get a call to the floor.

I wonder if you would care to submit your full statement for the record, and then select such portions of it as you want to emphasize and make any comment you want. I notice it is an 18-page statement. At any rate, that would take about 40 minutes to read in full. I am just afraid you would not have a chance to make the major points you want to make if we did not follow this procedure. But, having that in mind, you make your own choice.

Mr. BATZELL. You, sir, have just granted me the request I was about to make of you.

Mr. HESELTON. All right, then, your statement will be inserted in full in the record at this point.

(The statement referred to follows:)

STATEMENT ON BEHALF OF THE INDEPENDENT REFINERS ASSOCIATION OF AMERICA

My name is Elmer E. Batzell. I am appearing today on behalf of the Independent Refiners Association of America, for which the firm of Meyers & Batzell, of which I am a partner, is counsel. The membership of this association believes it important to present to the committee the problems which confront the independent refiner and the circumstances which have required independent refiners to increase product prices in the circumstances under examination by the committee.

The independent refiner is the small-business man of the refining branch of the petroleum industry. In general he is nonintegrated; that is, he depends virtually exclusively upon his refining operations for the revenue which keeps him in business. He owns or controls very little or none of the crude petroleum which he processes. Typically, he has under his ownership or control only a small fraction of the wholesaling, distributing, and marketing facilities utilized for distributing his products. In most instances he must depend for the movement of the crude oil to his refinery and the transportation of the products which he produces to marketing areas upon pipelines, tank trucks, barges, or tankers operated by others.

He purchases a considerable amount of his crude from independent producers. Typically, he markets a bulk of his products through independent jobbers and wholesalers. In the aggregate, he represents a most important customer of the independent producer; likewise in the aggregate, he is a significant contributor of products to the independent jobbers, wholesalers, and service-station dealers of the Nation and to the ultimate consumer.

Testimony has already been introduced into this record pointing out that major integrated companies depend upon the independent refiner for an important portion of their product supply. In this, the independent refiner serves as the repository of additional refining capacity which can be and is drawn upon to meet rapidly increasing product demand. By the same token this capacity can quickly become surplus when the demand for products falls significantly below the available capacity to produce. This balance aspect of the independent refiner's business creates unusual hazards to be overcome.

The independent refiner meets these extraordinary risks by applying to their solution the imagination, ingenuity, and resourcefulness which has been so characteristic of the aggressive, picturesque, and sometimes violent growth of the petroleum industry. It is the ability to move quickly in the light of new situations and to adapt operations promptly to changing conditions which gives the independent refiner the competitive edge enabling him to survive. It is not just refining capacity and an inadequate supply of products for his customers,

military or civilian, that is at stake when the life of the independent refiner is threatened; it is a type of management, the imaginative enterprise of individuals, which is vital to the maintenance of vigorous competition in the industry.

Adaptations are made to changing conditions in a number of ways. Sometimes it is by changing yields of the products manufactured; sometimes by seeking and obtaining more favorable crude connections, either as to the type crude or as to the economics of getting it into the plant; sometimes by the installation of new or improved processes; sometimes by processing arrangements, long range or short term, with other refiners; sometimes by the adjustment of prices. Frequently, if not universally, two or more methods of making adaptations occur simultaneously; and the nature of the refining industry is such that these adaptations are virtually a continuous process.

For example, just a year ago the Petroleum Administration for Defense held a series of meetings with large and small refiners on the gulf and east coasts asking, in effect, for pledges to maximize distillate and home heating oil yields against the possibility of a winter considerably colder than the preceding one. At that time prices were frozen by Government price control; the adjustments could be made only by sacrificing revenue from other more profitable products; but nonetheless the adjustments were made in the public interest; and the good Lord having decreed a warmer rather than a colder winter, the refiner found himself with a substantial oversupply which softened the market and reduced the revenue below even that anticipated for the lower-value products. The refiner lost two ways: First, because he produced less of higher-quality products; second, because the increased production of heating oils and distillates manufactured to protect the consumer resulted in an oversupply and an even lower return than anticipated.

As any official of PAD who participated in the discussions can tell, this loss to the refiner was not unanticipated by him. That's why discussions were necessary: to overcome the resistance which sound economics and sound business planning required. The refiner's response in the face of the economics is not apathy toward the consumer, as has been suggested at least once in this hearing; it is the highest kind of awareness of public responsibility by the refining industry.

Except as to aviation gasoline during the petroleum strike of a year ago May, no petroleum customer has been rationed by a Government priorities system since Japan surrendered. As a good and substantial customer of the steel industry, however, the independent refiner has been unable to get the materials he needed except in allocated quantities for the past 2 years. The point is not that the refining industry is superior to the steel industry; the point is that the independent refiner is aware of a responsibility to his customers and he possesses those individual characteristics of imagination, know-how, and drive which he can, does, and will use to get the job done.

He is small enough, unregulated enough by either industry or Government, and individualistic enough to be able to exercise separate and independent judgments. This is what makes him significantly important; drive this rambunctious free-enterprise ability out of the market place or stifle it by regulation and control and you have lost not just the close to 20 percent of the refining capacity held by independent refiners, you have sacrificed a vast reservoir of irreplaceable characteristics—vitality, competitive urge, and dynamic awareness of public responsibility.

There are times when the adaptations of which I have spoken require price adjustments, just as in the example I gave, there are times when the independent refiner has knowingly faced a continuing loss to make adjustments which he thought had to be made even if the costs wouldn't be recovered. As a businessman, however, he cannot long make the contributions that have been described unless he operates at a profit. He is in business for that purpose and it is the characteristics which make him successful in business that make him important to the Nation. If circumstances require him to make his adjustments through the price mechanism, the historically sound method in a capitalist economy, it is not something for which he should apologize. If these adjustments can't stand the test of the market place, he'll know it quickly enough and so will the consumer.

There is no mystery to the increase in product prices by the independent refiner in June. He had to increase prices if he were to stay in business. Perhaps, he should have increased them more, and in instances he tried to; but the operation of consumer resistance quickly forced the prices back to a lower level. Thus, an attempt in the mid-West and West to increase the price of residual fuel oil by 20 cents a barrel was unsuccessful and the commodity failed to move until the price increase dropped back to 15 cents per barrel. What happened was that

people who were willing to pay 15 cents more per barrel for the product, wouldn't pay 20 cents more; the same type of judgment that operates hundreds of thousands of times daily in the stock markets, the commodity markets and the general purchasing operations of this Nation.

The refining operation is the key to the tremendous growth in petroleum-product usage experienced in this country and throughout the world. The refiner takes crude oil, having a variety of characteristics and different densities, wide variations in kind and quantity of impurities, extensive differences in hydrocarbon content, and makes standardized finished products to relatively close specifications that can operate aircraft, automobiles, tractors, oil burners, commercial ships, vessels of war, and the machinery of industry, with a minimum of trouble. This is an industrial miracle of no small magnitude; how well it has been done is evidenced by the fact that the consumer takes it for granted that he will always have enough of the right kind of product in the right place at the right time and at the price that he has become accustomed to paying. It is only when one or another of the factors he has taken for granted is disturbed that he inquires into how the miracle is accomplished and why it can't be accomplished on the same basis as before. That's what the consumer has done today about price.

The man who drives a new car today with its high-compression engine would find his investment a pretty unsatisfactory one if the qualities of gasoline he could buy in every hamlet in the Nation did not match the radically altered engine design of his new automobile. Aside from increased taxes, however, the improved product which permits him to achieve efficiently his multihorsepower performance has increase in cost barely 50 percent while the vehicle itself has risen in price 200 to 300 percent.

In specific terms the qualities of motor fuel available to the consumer have made appreciable jumps since 1940 and particularly since the war. Using the motor method of computation, octane ratings of regular grade motor fuel increased by year as follows:

1945	69.7
1946	74.4
1947	75.1
1948	75.2
1949	76.4
1950	78.2

In 1951 because of Federal Government restrictions on the use of tetraethyl lead (caused by a shortage in raw lead) octanes fell slightly to 77.6. With restrictions removed, however, the octane number of regular motor fuel is now in excess of 79, an improvement of over 14 percent since the end of the war.

This is not the whole story. Research octane numbers, which many experts feel more accurately reflect performance characteristics of modern high-compression engines, have increased to an even greater extent, while other factors such as volatility, burning characteristics, and the like, have been appreciably improved. As the Policy Commission put it.[1]

"Along with this greatly increased volume of production, the quality of motor fuels, lubricants, and other products has been steadily improved and the real cost of refining greatly reduced, and all in all the technical performance of the petroleum industry has been outstanding. *Prices of petroleum products, measured in dollars of constant purchasing power, were more than 16 percent lower in 1950 than in 1925, in spite of a 2½-percent rise in the price of crude oil in constant dollars.*" [Italics supplied.]

The effective freezing of petroleum prices in late 1950, first as a voluntary response by the industry to a Government request; later continued as a matter of law by Government regulation, makes use of the 1950 standard a valid one. In the detailed cost and price comparisons made below this 1950–51 base will be used.

The reduction in cost to the consumer of the refined product price and the tremendous increase in quality were achieved through the investment of vast sums for technologically superior facilities. The independent refiner either kept pace with these general industry developments or was faced with the prospect of being forced out of business by technological competition. Catalytic cracking, alkylation, isamerization and other modern processes rendered technologically obsolete, previously installed equipment long before its useful physical

[1] The President's Materials Policy Committee, Resources for Freedom, vol. III, p. 4 (1952).

life had ended. Unfortunately, as with most new processes, original designs were for use in connection with larger basic refining facilities than most independent refiners possessed. And it took time before the independent refiner could grow to a size sufficient to use the processes efficiently or the processes could be redesigned so as to operate well with the small plants of the independent.

This competitive time lag in the development and installation of new processes has a significance in the revenue to cost position of the independent refiner that is frequently overlooked:

(1) Depreciation, which is based on physical life of equipment, not only cannot take into account the intrinsically higher replacement cost of existing facilities, arising by virtue of the tremendous increases in the steel, copper, brick, fabrication, and labor costs which go into a plant, it utterly fails to provide a reserve for installation costs of new processes which frequently make obsolete already installed facilities in a quarter to half of their useful physical life.

(2) New processes invariably, even after years of development, require larger basic refining facilities than have characteristically been owned by the independent refiner. This means that the independent refiner must plow back into his facilities a larger proportionate quantity of his earnings to expand his basic plant than do a number of his larger competitors whose basic facilities have already exceeded minimum economic levels of size.

(3) New processes are themselves intrinsically more expensive than the ones which they replace. Moreover, with rare exceptions it is a considerable period of time before they can be designed down to useable efficiency to fit the smaller, even if enlarged, capacities of the independent refiners basic facilities. During the interval, the unit cost of the independent refiner is either materially higher than that of his large competitors or he is at a competitive disadvantage in the quality of products he can produce or both.

Two simplified examples make clear the point:

(*a*) If as a result of technological advances the quality of both regular and premium gasolines advance appreciably, what was once an independent refiner's premium may now have to be sold as regular. Such a quality advance has been constantly occurring, but, as indicated above and as detailed below, no proportionate increase in the sales price or net revenue to the refiner has resulted. In effect the independent refiner is forced to reduce his total and unit revenue as he sells the same commodity which once commanded a premium price for the lower current price of regular gasoline.

(*b*) Operators of very large installations may have been able to develop processes, unworkable in smaller refiner's plants for some time to come, which reduce appreciably the total yield of relatively lower valued products produced from a barrel of crude. Thus, one of the largest refiners has indicated that by new developments and installations its yield of residual fuel oil has been reduced to an average of 10 percent. Meantime, the independent refiner is struggling to get his yield down to the national average of approximately 20 percent. At some point, assuming the independent refiner can keep alive, these methods will be adapted to his needs. Meantime, he will continue to pay the same price for the same barrel of crude as does his larger competitor, and recover substantially less per unit of product simply because he makes proportionately so much more of the lower valued product. At a time when this lowered value product was in long supply as in the past 9 months, this difference was between a profitable operation by the large refiner and a loss or break-even position before depreciation on the part of the independent refiner.

(4) The aggregate of pressures gradually make for independent refining facilities of constantly increasing size. In time, this means that the independent refiner becomes a significant economic unit in the area of his operations, even though he be small in the industry in general. He no longer is in a position to go in and out of operation at will; too much capital, too many employees, too many jobbers, wholesalers, distributors and customers are looking to his continued operation. In costing his product today, he must assure recovery not just of his out-of-pocket expenses with modest provision for the costs of a baling-wire teapot installation; he must also assure recovery of the vast sums he has had to expend on capital improvements just to say in business, and the interest and dividends on those sums which he must meet if he is going to stay alive and continue the expansion which is the price of survival in this highly dynamic industry.

In recent years refining industry as a whole, as well as the independent refiner, has been trading upon its lower-cost assets in continuing a policy of low

prices to the consumer. For the past 10 to 12 months, in large part because of the residual fuel-oil situation to which I adverted above, the refiner has just been breaking even or showing a slight profit before depreciation. The consequences of technological improvements and competition on the cost of doing business and the need for vast capital increases make clear that this is a substantial loss position which cannot long be maintained. The remedy in the face of increased costs and operating costs can only be increased product prices and increased revenues to the refiner.

Mr. Joseph Pogue, of the Chase National Bank, to whom members of this committee have referred, put it this way: [2]

"Corporate income during the last 5 years has been overstated because of the inadequacy of current capital extinguishment charges to provide for the replacement at present high costs of properties and facilities which are being extended in current operations. Only charges for depreciation, depletion, and amortization, which are deducted from earnings for the purpose of amortizing the carrying value of fixed assets during their estimated life, are based upon original cost. However, current replacement costs are far above those which prevailed when present facilities were constructed or acquired. As a result, current capital extinguishment charges are in most cases at a rate far below the provisions now needed for replacement of reported net income. In effect, what has happened is that the petroleum industry has been selling its low-cost productive assets, particularly crude oil reserves and has been taking the profit into operating income and paying taxes on it, without proper provision for replacement at current inflated costs.

"The capital required to finance replacements of crude oil reserves, plants, and other facilities in the petroleum industry at present costs, over and above that provided by capital extinguishment charges computed on original cost can be obtained only from three sources: reinvested earnings, borrowings, and the sale of equity capital. All three sources require that the industry have good earnings, without which there would be a deficiency of funds to reinvest and also no basis for attracting outside capital."

On Monday, June 15, a crude price increase of 25 cents per barrel was announced. The increased posting of Phillips was immediately followed by other crude buyers. The independent refiner who buys virtually all of his crude either immediately followed the increased posting or was faced with losing his crude connections. Since without oil he cannot operate, he followed the higher posting forthwith.

Crude accounts for between 68 and 80 percent of the refiner's total costs, around 75 percent being a fair average based on data available to the association. On this basis, total costs of the independent refiner and of the refining segment of an integrated company were increased immediately some 7.3 percent. In the majority of instances, the refiner was already operating at a loss after depreciation. He could look forward to an immediate cash drain of substantial magnitude, amounting on a 10,000 barrel a day refinery to some $75,000 per month. The consequences were obvious unless there was an immediate upward adjustment in product prices.

Such an adjustment occurred. In general, the level of adjustments seems to be: 1 cent per gallon on gasoline; ½ cent per gallon on distillate and home heating oils; 15 cents per barrel on residual. These adjustments were not uniform; in some instances attempts were made to increase residual to 20 cents per barrel; gasoline prices varied between refineries but averaged out at approximately 1 cent per gallon increase; the price increase on kerosene and home heating oils on the eastern seaboard has been reduced downward. Regardless of the exact level, however, it is significant that for most refiners the product increase thus far announced have not fully recovered the increased costs resulting from an upward adjustment in the price of crude.

There has been considerable discussion about the price of gasoline to the consumer and mention has been made that the price of regular gasoline in the Washington area is now approximately 28.8 cents per gallon with the price of premium grade gasoline some 2 cents higher. Prices of this magnitude tend to obscure the actual price which the refiner receives for his product, which since 1951 has averaged approximately 10¾ cents per gallon for regular gasoline and which is now, on the average, approximately 1 cent higher.

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[2] From Capital Formation in the Petroleum Industry by Frederick G. Coqueron and Joseph E. Pogue, petroleum department, Chase National Bank of the city of New York, February 1952.

An examination of the price structure for the postwar years 1945 through 1951 (December used as a basis) shows clearly the cost elements which exist between the refinery price and the price which the consumer ultimately pays. During this period the refinery price of gasoline rose from approximately 7 cents per gallon to 10¾ cents per gallon, the tank-wagon price increased from 10.07 cents per gallon to 15.34 cents per gallon. The service-station price, exclusive of taxes, rose from 14.19 cents per gallon to 20.31 cents per gallon. Total taxes increased from 6.5 cents per gallon to 7.32 cents per gallon. The increased cost to the consumer rose from 20.24 cents per gallon to 27.63 cents per gallon.[3]

From the above it is plainly apparent that the major cost of the product to the consumer is accounted for by taxes, service-station margins, jobbers' margins, and transportation from the refiner to the jobber and from the jobber to the ultimate retailer. The refiner receives a very small proportion of the total cost to the consumer and out of this small proportion he must pay for his crude oil, his processing, the depreciation on his facilities, the transportation into his plant of the raw material, the costs of repairs and betterments, research, and the interest on his indebtedness. What is left is his profit, out of which he must amortize his indebtedness and provide for new expansion.

During this same 1945–51 period the price of crude oil advanced from $1.25 per barrel (east Texas basis) to $2.65 per barrel, an increase some 112 percent. The refiner's price in the meantime increased only approximately 50 percent. During this same period, as has been pointed out above, the quality of gasoline increased some 14 octane numbers on the motor method basis.

Unfortunately, not all the products a refiner makes can command the high price of gasoline. Residual-fuel oil, for example, frequently brings a total price per barrel of something less than the cost of the crude out of which it is made. These differences in the prices of products and the inability of any refiner, no matter how large, to eliminate completely production of low-value products, such as residual, necessarily seriously affects the gross average sales value of the products which are produced. The table given below[4] indicates the average percent yield of principal petroleum products per barrel of crude oil during the years 1946 through 1951. Yields, of course, vary not only in accordance with the type of refining equipment available but also with the qualities of crude oils which a refiner can purchase. As has been indicated above, the independent refiner in general has had a great deal of difficulty in reducing his yields of residual to the national average and as a result has been adversely affected in terms of total revenue returned to him through the sale of his product.

An examination of the operations of several typical independent refiners indicates that the maximum refining margin as measured by the difference between the cost of crude oil delivered to the refinery and the total revenue derived from

[3] Month of December used as basis.

Year	Price at service station, including tax	Total tax	Cost at service station	Gasoline reseller's price
1945	0.2024	0.0605	0.1419	0.1007
1946	.2170	.0609	.1561	.1118
1947	.2415	.0628	.1787	.1314
1948	.2612	.0638	.1974	.1466
1949	.2674	.0663	.2011	.1485
1950	.2689	.0668	.2021	.1543
1951	.2763	.0732	.2031	.1534

[4] United States average percent yield of petroleum products per barrel of crude oil by years.

Product	1951	1950	1949	1948	1947	1946
Gasoline	42.4	43.0	43.7	40.1	40.2	39.6
Kerosene	5.7	5.6	5.2	6.0	6.0	6.0
Distillates	20.0	18.9	17.5	18.5	16.8	16.6
Residual oil	19.7	20.3	21.7	23.5	24.2	24.9
Lubricating oil	2.6	2.5	2.3	2.5	2.8	2.6

Source: U. S. Bureau of Mines.

Approximately 10 percent of each barrel of crude charged is either lost in recovery, used at the refinery for fuel, or is produced as other petroleum products.

the sale of all products is less than 2½ cents per gallon (2 cents to 2⅝ cents). This figure is obviously less than either the jobber margin or the gross service-station profit, as indicated in the table cited above. At the present time it amounts to only about one-third of the total taxes placed on a gallon of gasoline.

It is this gross margin from which the refiner must derive all of the income which will provide for his direct operations, his general costs, depreciation and amortization, and his profit. Without amplification, it is perfectly apparent that an increase in the price of crude in excess of one-half cent a gallon has the immediate effect of reducing this margin by 25 to 30 percent and unless product prices are adjusted immediately to counteract the increased cost of the raw material, the refiner will operate at an out-of-pocket loss.

The situation is even more clear when the refiner's net profit is examined. Net profit of refineries equipped with modern processes, after taxes, has run between one-fourth cent and three-eighths cent per gallon in recent months. It is this profit which is available to offset low rates of depreciation, modernize facilities, and pay dividends to stockholders. The crude-price increase amounts to 0.59 cent per gallon. This cost substracted from the already extremely thin margins necessarily will result in a red operation.

The average net return before taxes of total sales of all products made by the independent refiner has varied from between four-tenths cent per gallon and eight-tenths cent per gallon over the last several months. After subtracting the per-gallon cost of the crude-price increase, the remaining very slim profit position of the most efficient becomes clearly apparent, while for those who have been breaking even or making a modest net, a clear cash loss of substantial magnitude is plainly evident.

The inevitable conclusion of these data is that the independent refiner had no alternative but to proportionately increase the price of his products. Such an increase would do nothing more than pass on the increased raw material cost, if that. It could not recover the losses experienced over the past 2 years, during which time substantial increases in operating costs have occurred. Thus, for example, the costs of finished steel on the Bureau of Labor Statistics Wholesale Price Index, increased in the period June 1950–January 1953 some 16.2 points; heating equipment on the same basis and for the same period increased 11.8 points; pumps, compressors, and other similar items increased 19 points; industrial furnaces increased 19.8 points. For all of these items essential to any refiner's operations, even further increases were experienced in the period January through May of this year.

The comparison of the average hourly earnings in domestic refineries with hourly earnings in all manufacturing shows, during the period 1947 through 1951, that not only were the wages in refineries at all times substantially higher than in all manufacturing industries, but also that the wage increases in the refining industry during this period were over 143 percent of the increases during the same period in all manufacturing industries.[5]

As one of the association members has pointed out, since the outbreak of the Korean conflict there have been five separate labor increases amounting to 47 cents per hour, plus other benefits which have cost approximately 18 cents per hour. During this same period from 1950 to the present time, these extraordinary cost increases have reduced the refining margins of the various independent refiners by from 45 to 70 percent.

None of these added costs have been passed on. Under general rulings of the OPS it was the decision with respect to petroleum refining that, unlike most other industries, added costs of wages, raw materials, and other direct operating expenses could not be reflected in increased prices to the purchasers of the products. Those adjustments made immediately following the crude-price increase did not and were not designed to reflect these added costs.

[5] Average hourly earnings in United States refineries compared with those in all manufacturing:

[Cents per hour]

Year	All manufacturing	Petroleum refineries
1951	159.5	208.0
1950	146.5	192.9
1949	140.1	187.4
1948	135.0	178.8
1947	123.7	156.6

Source: U. S. Bureau of Labor Statistics.

It is appropriate to indicate exactly how close product increases thus far made have come to equaling the 25-cent increase in the cost of crude. In no instance have product increases returned to the refiner a total of an additional 25 cents per barrel above and beyond the return he was experiencing prior to the crude-price increase. Variations seem to exist from a minimum of 21 cents per barrel increase to a maximum of 24.7 cents per barrel.

There are a number of factors which account for this inability fully to recover the total 25 cents of added cost. In many instances the price postings of other refiners in the area of a particular plant were inadequate to assure full recovery of the costs, based upon the relative yields of the independent refiner. In other instances, because of marketing practices with respect to certain products, such as asphalt, flat contract prices have been entered into which could not be reflected by an appropriate upward adjustment until the end of the contract year. Various Government contracts on gasolines, jet fuels, and other intermediates have been entered into for periods of 6 months to a year on the basis of flat prices without acceleration clauses. Obviously, products delivered under such contracts contribute nothing to offset the increase in the total crude cost. So far as product price adjustments thus far made is concerned, the independent refiner and the refining industry in general has accomplishing nothing but a partial pass-through of the increased cost of the raw material.

From the foregoing discussion it is perfectly apparent that such price adjustments as have recently been made were an inevitable and necessary step to maintain the life of the independent refiner. It is equally apparent that adjustments thus far made have done nothing to relieve the independent refiner of the heavy cost burden which he has in increasing measure been subjected to since the outbreak of Korea. In fact, as the reports indicate, he has not been able fully to recover the added costs of his crude and, as a result, he finds himself in an even worse position than he was at the time the crude increase was announced.

Except in localized areas, the independent refiner nowhere is able to set his prices without regard for the levels at which other refiners are selling their products. As has been pointed out, he lacks ownership or control of the jobbing and retailing outlets to which he sells his products. This circumstance makes it inevitable that in matters of price increase he can establish price levels no higher than the traffic will bear, regardless of the cost justification which may warrant a much higher recovery.

The foregoing analysis has clearly indicated that the substantial increases in operating costs of the refining industry over the past 3 years have not been reflected in upward adjustments of prices. The result has been a serious deterioration of the net profit of the refiner and in his ability to maintain the technological advance necessary to the welfare and security of the country. The refining industry cannot absorb further increases in cost of any nature; and with its raw-material cost amounting to 75 percent of the total cost of operation, it must take steps to recover to the maximum extent possible, the increases resulting from the crude-price adjustment. As pointed out, product-price adjustments thus far made do not recover in full the increased cost for the raw material. The refining segment of the industry remains in a precarious position and it must be anticipated that further increases will have to occur through upward price adjustments if the refiner is to maintain the contribution which he has heretofore made to the development of new and better products for the ultimate consumer.

Mr. BATZELL. Thank you very much.

There are one or two typographical errors in the statement, and as I make points, I will give them to the reporter.

I am appearing here today on behalf of the Independent Refiners Association of America. The membership felt it was important to bring to the attention of the committee the problems of the independent refiner.

Mr. Blazer, Mr. Brazell, and others have already brought before the committee the greater portion of those problems. What I would have to add to that would, in large measure, be duplicatory, if I were to read the statement in full.

There are one or two points that perhaps could be reemphasized. The first I would like to make is what has already been ably stated: The independent refiner produces very little of his own crude oil.

By the same token, he markets almost exclusively through other people, through independent jobbers, wholesalers, and retailers. In most cases he does not own the transportation facilities that get the crude to his plant, or that move the products to the market areas. He has to depend in large measure for his competitive edge upon his imagination, his ingenuity, and his resourcefulness.

I think you would agree that the testimony, particularly of Mr. Brazell, gave an excellent evidence of that capacity. That capacity for exercise of imagination, ingenuity, and resourcefulness is one of the important elements that is at stake when the independent refiner's life is threatened.

It is not merely the fact that he has, in the aggregate, a productive capacity of something between 15 and 20 percent of the total refining capacity of the country. It is also that he is a very important element to the independent producers and to the independent marketers, jobbers, and distributors.

This aspect of his endeavor is of the highest importance to the Nation as a whole and to the consumers of the Nation. When the life of the independent refiner is threatened, it is particularly this aspect of his activities which will be lost to the Nation if he does not survive.

There is no mystery from the independent refiner's point of view to the price increase that occurred in June. As has previously been testified, and as is developed in detail in my statement that has been presented to you, the independent refiner was barely breaking even, or in some instances was actually losing money, prior to the price increase in crude. Unless he could recover the cost of that price increase, or substantially recover it, he was confronted with the economic fact that he would not very long stay alive.

That is why he is here to tell you about that particular problem.

Now, there are certain things that are important for the committee to recognize. Among those things is the fact, as has been frequently stated, that the quality of gasoline, for example, has substantially improved over the years. On page 6 of my statement is an indication of the increase in octane ratings since 1945 as measured by the motor method; the research method octanes are even higher.

The testimony today as to 85 and 96 octane gasolines refer to the research method of measurement. The significant thing, however, is that the quality of the product to the consumer has improved, measured in octane numbers, over 14 percent since the end of World War II.

Mr. HARRIS. Mr. Chairman, I wonder if Mr. Batzell will indulge me for just about 2 or 3 questions, because I must go to the floor of the House.

Mr. BATZELL. I will be delighted.

Mr. HARRIS. How many members are there in your organization?

Mr. BATZELL. I would say there are about 26, sir, some of whom have testified today.

Mr. HARRIS. How many refineries are included in this group?

Mr. BATZELL. How many refineries?

Mr. HARRIS. Yes. Some companies have more than one refinery.

Mr. BATZELL. That is correct. I was trying to compute a rough total, sir. Something over 40, I would say.

Mr. HARRIS. What percentage of the total refining capacity of the United States, sir, is by the independent refiners?

Mr. BATZELL. I think independent refiners account for approximately 18 percent of the total refining capacity of the Nation as a whole. Now, that, of course, includes many other independent refiners than those who are members of this particular group.

Mr. HARRIS. For comparison purposes, do you know what percentage of the productive capacity of crude oil of the United States is by independent producers?

Mr. BATZELL. I do not know, sir, although I think that the independent producer produces a very substantial portion of the crude oil of the United States, amounting to in the neighborhood of 50 percent or perhaps more.

Mr. HARRIS. I have looked over your statement in behalf of the association which you represent. It appears to me to be a very good statement, covering the entire situation, as you are giving here now in résumé, the problems of the independent refiners.

I think it is very fine to have this statement in the record on this entire problem.

Mr. Chairman, if you will excuse me, I must go. I am sorry I must leave, but I did promise I would be on the floor before 4.

Mr. HESELTON. You may proceed, Mr. Batzell.

Mr. BATZELL. I think there are some very significant points that should be stressed. Among those is the fact that this increase in quality of gasoline and other products distributed to the consumer occurs only with the investment of substantial additional funds in new and improved refining processes. That investment has to be paid, and the only way that it is paid is out of the profits of the refining industry.

There are some factors in the refining industry that perhaps are not as common in other manufacturing industries. One factor of major importance is the technological obsolescence of existing equipment. Those words simply mean that particular facilities and processes go out of date and are supplanted by better facilities and processes more quickly than their normal useful physical life expectancy. In other words, they are out of date and retire a lot earlier than the materials in them would necessarily force them to retire.

That is important because the depreciation which all refiners have to charge is based upon the cost of the originally installed facilities. Those facilities not only in actual replacement values have increased in cost tremendously over the past few years but, secondly, those facilities are frequently out of date long before their useful life has fully expired.

For that reason, there is actually the necessity to take out of profits, if the refiner's accounting system is to be fully adequate, an additional reserve to keep his plant in order, to build it to the size that is necessary for new and improved processes, and to install those new and improved processes themselves.

This means that in considering the profit of a refiner, and especially of an independent refiner, you must recognize that that profit element has to properly include an additional reserve. This reserve is not covered in the ordinary depreciation costs taken out of his gross income before that profit is computed. This reserve of profits is a vital factor, since it accounts for the ability to keep improving the products to the ultimate consumer. It accounts for the increase in octanes, for example, in gasoline. It accounts for the developments

in aviation gasolines, and the ability to produce today grades of 115/145 in large quantities as against, 10 years ago, grades of 100/130.

The crude petroleum which the refiner has to have to continue his operation accounts for anything between 65 or 68 percent and 80 percent of his total costs. It is obvious, on this basis, that with a price increase of 25 cents per barrel, the increase in cost amounts to approximatley 7.3 percent immediately. He is confronted with a problem of recovering that cost or else suffering actual out-of-pocket cash loss.

This isn't just his breakeven before depreciation, which he has been operating on in many instances for the past 9 or 10 months. This is actual dollars.

Of course, in a 10,000-barrel-a-day refinery, with a 25-cent increase in the price of crude, there is $2,500 a day, or $75,000 per month, of actual cash outgo which cannot be recovered unless the refiner's product prices are upwardly adjusted.

It is difficult in a presentation of this kind to generalize on the industry. Testimony here has already indicated to you that the increases in product prices that took place after the crude increase have varied from area to area throughout the country. In general, however, they appear to have been on the order of a cent for gasoline, half a cent for distillates and home-heating oils, and 15 cents per barrel on residuals. In certain parts of the country an attempt was made to obtain a 20-cent price for residuals, for example, but the purchasers would not pay the 20-cent price, and the price dropped back to 15 cents a barrel.

Elsewhere, there have been adjustments. There have been adjustments downward on the east coast in connection with distillates and home-heating oils. Certain of the refiners were never able fully to increase their prices because of their fixed contracts which they had, either with the Government or with other purchasers.

The important thing is, from the refiner's point of view, not the service-station price, which is what the consumer knows, which in this area is running around 28 to 29 cents for regular and 2 cents higher for premium grade; it is the actual price of the product at the refinery—f. o. b. the refinery.

That price, up to the crude price increase, was approximately 10¾ cents per gallon, again on the average. There were adjustments in places, and prices varied for various grades of gasoline. The difference between that price and the price which the consumer pays was a difference made up of taxes, of the various jobber and dealer margins, and of transportation and distribution costs. But the refiner who produced the products which the consumer used was receiving only a very small segment of the final price which was available.

On page 12 of my statement, I have indicated in the text as well as in the footnote a breakdown of some of these relative prices. I would like to make a correction on that page; the column headed "Cost to service station," ought to be "Cost at service station."

Mr. HESELTON. That correction may be made.

Mr. BATZELL. We have talked about gasoline, but unfortunately not all the products that a refiner makes can command the high price of gasoline. Residual fuel oil, for example, has been known to bring a total price per barrel of less than the cost of crude out of which it was made.

The problem, then, is to consider the relative yields of any given refinery and the prices which the various products can command, and come out with a total figure sufficient in the aggregate to cover the costs of the raw material—which is 75 percent of the costs—the cost of processing that raw material, the cost of depreciation, the cost of interest on investment, and the costs of research, the provision for new facilities, and still at the end of that time be able to pay a profit to the stockholder or to the person who has put in the original net worth and taken the original risk in the organization.

An examination of the operations of several of the independent refiners—and certainly there has been testimony to indicate this figure is high—indicates that the difference between the cost of the crude oil delivered to the refinery and the total revenue derived from the sale of all products is less than 2½ cents per gallon. I have indicated from 2 to 2⅜ cents per gallon, but it is even less than that in instances, and this has been true for some months.

This figure is obviously less than either the jobber margin or the gross service station profit, as has been indicated in previous testimony here, and it is this gross margin out of which the refiner must pay the costs that I have previously described.

With an increase in the price of crude in excess of half a cent a gallon, this margin is immediately and forthwith reduced by 25 to 33⅓ percent, and on that basis the refiner, it can readily be seen, can quickly be operating at an out-of-pocket loss.

The net profit of modern refineries, equipped with modern processes, in recent months has, after taxes, run between a quarter and three-eighths of a cent a gallon; and before taxes it has varied between zero or minus in the case of less modern plants and 0.4 cent a gallon and 0.8 cent a gallon in more modern facilities, depending upon the particular locality, and the particular operating circumstances of the refiner.

Obviously, if you subtract 0.6 cent a gallon, the approximate cost of the crude increase, from 0.4 cent a gallon, you are operating in the red. If you subtract it from 0.8 cent a gallon gross operating profit to the refiner, you have cut his margine down to the point where he has complete inability to preserve flexibility, to preserve cash reserve, or to set in motion those necessary reserves for his future expansion programs and the installation of the improved processes on which he must depend.

There is one question that has been asked by the committee several times, and it is pertinent to answer that question.

So far as we can ascertain in contacting our membership, none of the refiners, through the increase in product prices, has as yet been able fully to recover the 25-cent increase in the cost of crude oil, which is the increased cost of his raw material. The variations seem to exist from a minimum of 20 cents per barrel to a maximum of 24.7 cents per barrel, but testimony this morning computed on a per barrel basis would indicate that that minimum is too high; that at least in one instance the minimum recovery is below that 20-cent-per-barrel figure.

In those circumstances, it is obvious that the refiner has not made up yet the increased cost to him of the crude price increase, much less provided against the increased costs which have occurred over

the past few years in all of the important and significant materials, except crude oil, which he has had to use in his refining operation.

I have indicated, on pages 15 and 16 of this statement, the comparative increases in price of important equipment utilized by the refiner over the past 2 to 3 years. I have also indicated the increases in wages, and wage benefits, and I want to specifically point out that wage increases in the refining industry in the period 1947 through 1951 were 143 percent of the increases in the same period in all manufacturing industries. As one of our members has pointed out, since that time there have been 5 separate labor or wage increases amounting to 47 cents per hour, plus other benefits, which have cost approximately 18 cents per hour. These cost increases are not necessarily uniform, varying from plant to plant.

The significance, however, is that the cost increases have obviously been substantial within the refining industry, and are far greater, proportionately, than has occurred in other manufacturing industry.

Obviously, the wage increases, plus the increases in important materials prices, have reduced the refiner's margin substantially. Anything from 45 to 70 percent seems to have been a general figure, as we can learn it from our membership.

Unlike many other industries, these extraordinary costs were not permitted to be passed on during the OPS period, and the refinery price was frozen. They had to be absorbed. In the current increases in price, no provision has been made for taking into account adjustments which sooner or later must be made to cover these additional costs.

If these overdue adjustments are not made, the refiner will inevitably go out of business. More than that, a great loss will occur to the country in the loss of his vigor, his enterprise, his imagination, his drive, his independence, his freedom of action.

Further than that, there will be loss in the inability to provide to the consumer—the ordinary consumer, the industrial consumer, the Federal Government, the military—those technological advances which have been so significant in this industry; and which are so important to the many things that we can do in our everyday life and to the military success which is of such great importance today.

Thank you, sir.

Mr. HESELTON. Mr. Batzell, do you wish to have the privilege of also submitting such answers as you care to make to the questions the chairman asked on this subject?

Mr. BATZELL. Excepting for time, and to the extent that I am qualified to do so, I would have preferred simply to try to answer those questions here and now, if you are interested in my answering them.

In many cases, as you can appreciate, because the association membership conducts no such operations at all, it is not qualified to answer them. In many cases, because the questions involve large company operations, foreign operations, or production operations, we have no qualifications to answer them.

Mr. HESELTON. I am sure we all appreciate that. It is simply that we want you to have the same privilege that all other witnesses have, of answering those questions that you feel competent to answer.

Mr. BATZELL. To the extent that there remain questions that we can competently answer, certainly I shall be glad to provide the answers for the benefit of the committee.

Mr. HESELTON. Do you mean you would rather do that now?

Mr. BATZELL. Whichever you prefer, sir. I personally would prefer to do it now, but I recognize the limitations on the time under which you are operating. If it is your desire, I will write them out.

Mr. HESELTON. Perhaps we can compromise on it. I have been advised that the bill which is on the floor was due to be opened for amendment at 4 o'clock. It is now 6 minutes past. We may be interrupted at any moment. I wonder if the committee members have any questions first that they would like to ask before we start to see how far we can go on the chairman's questions.

Mr. Bush, have you any questions?

Mr. BUSH. On your table here on page 12, Mr. Batzell, you give the service-station price from 1945 to 1951, including tax.

Mr. BATZELL. Right. Those are averages.

Mr. BUSH. Then you give the total tax.

Mr. BATZELL. Those are averages, you understand, sir. They vary.

Mr. BUSH. Yes; I appreciate that.

Then you give the cost of the service station.

Mr. BATZELL. Right.

Mr. BUSH. But you do not make any mention in here about the jobber.

What does the refinery actually get for its gasoline? There is a jobber to be considered in here. You do not mention him in here.

Mr. BATZELL. If you will look in the text, sir, during this period the price of gasoline rose from approximately 7 cents per gallon to 10¾ cents per gallon. The tank-wagon price increased from 10.07 cents per gallon to 15.34 cents per gallon. The refinery price, however, was the 7 cents per gallon to 10¾ cents per gallon. That was not set forth in the table. It appears in the text.

Mr. BUSH. It just seemed to me, as far as the record was concerned there, it was not showing a clear picture as far as the refineries are concerned, because a jobber has a certain profit in there, a certain margin that he has to work on. So, as far as your refineries are concerned, they would be getting less here than what this table shows.

Mr. BATZELL. Absolutely.

Mr. BUSH. And I think in all fairness to the refinery, you ought to show what the jobber gets in there.

Mr. BATZELL. I would be very glad to expand that table. I put the table in simply as a reference point, hoping that the textual material itself, which stated the actual price to the refiner, would cover it. But I agree with you.

Mr. BUSH. I do not think you present your full case if you do not include it, because the jobber there gets some money which does not show up here.

Mr. BATZELL. That is correct. And then there are transportation and distribution charges.

Mr. BUSH. So the refiners are not getting the benefit of all that.

Mr. BATZELL. No, sir. They were getting from 7 to 10¾ cents per gallon. You are absolutely right.

Mr. HESELTON. Mr. Williams?

Mr. WILLIAMS. No questions.

Mr. HESELTON. Mr. Hale?

Mr. HALE. No questions.

Mr. HESELTON. In your statement, I think you said that because the consumer would not pay the increase in the cost of the distillates in the Northeast, the prices came down.

Mr. BATZELL. No, sir. I meant to say that in the West and Midwest, an attempt was made to increase the price of residual fuel oil, not distillates, by 20 cents a barrel, but that this had proved unsuccessful.

I don't know what various major companies did about that, but I know that some of our membership attempted to post a price increase of 20 cents per barrel on residual, but they were unable to find purchasers at that price, and were forced to reduce the increase to 15 cents per barrel.

I made no mention of distillate, or at least I intended none, in the Northeast, except to indicate that increased prices had dropped on the eastern seaboard.

Mr. HESELTON. You have clarified that, anyway. That was the impression I had.

Speaking on that subject, of that reduction by 50 percent of the posted increase, certainly there is no evidence that I have heard, and I do not think there is any evidence available, that it came down because of consumer resistance. It was too short a period of time, in the first place, it seems to me, for that resistance to develop. And in the second place, I know of no indication that there was a falling off of normal purchases of those distillates. I may be in error. If there is anything to correct that, I would welcome it.

Mr. BATZELL. You are talking, sir, about the Northeast, and the price of distillates in the Northeast?

Mr. HESELTON. Yes.

Mr. BATZELL. I am not familiar with the details of that marketing situation.

Mr. HESELTON. You heard Mr. Blazer testify as follows:

> The independent refiners recognize the danger that the larger integrated oil companies which produce hundreds of millions of barrels of crude oil per year may use the extra profit derived from the recent crude oil advance to subsidize their refining and marketing operations during the prospective period of faltering advances on refined products.

Would you suggest how these profits on crude could be retained or restricted only to crude operations and not be used to subsidize refining and marketing operations where they compete with the independents, and specifically, would you suggest that the amount of the 27½-percent depletion allowance on crude be directed solely into exploration and development as a possible approach to a solution?

Mr. BATZELL. Well, let me take up the last part of that question first.

This is as good a time as any to assert for the record that one of our members has been beseeching for a year that the association importune the Congress of the United States to get 27½-percent depletion allowance for all products processed through his plant. I think it is not a bad scheme. In fact, I think that so far as the independent refiner is concerned, looking at the depreciation of the independent refiner and the problems that are involved there, I would be one to very seriously urge that the independent refiner and all refiners and all business, each have the right to select his own depreciation period so far as the chargeoff and writeoff of the facilities are concerned, providing only one thing: That whatever period is

selected, and whatever method used for writing off a specific facility, be a period and method with which the person is thereafter bound.

It seems to me clearly evident, looking at the income-tax picture from 1913 to date, and especially over the past 10 years, that the present administration, and the Republican Members of Congress, much as they would like to appreciably reduce the tax levels, are confronted with such overwhelming fiscal problems that it is unlikely for some years to come that we can have any substantial reduction in normal tax rates.

It is important to the independent refiner, and I suppose to refiners in general, that, especially in connection with the early stages of an installation, he have an opportunity to retain in his business operations maximum cash, because that maximum cash is what can give assurance to lending institutions, banks, insurance companies, the public, that the loans he has had to make to get that facility installed will be repaid in a relatively short period of time.

Representing the Independent Refiners Association, I am not competent really to talk about the impact of the depletion allowance as a problem. But I certainly do urge for your very serious consideration an adjustment permitting this type of accelerated depreciation, if you will, at the election of the individual operators.

I don't see how Uncle Sam, over the long period, loses any revenue, and I see a very great stimulus to the smaller elements of any industry.

I say that not alone with respect to the refining industry but several others with which I have some acquaintanceship.

Mr. HESELTON. Of course, you recognize this committee has only advisory jurisdiction, if you want to call it that, as to what might be done in that field.

Mr. BATZELL. The association hopes to testify before the appropriate committee and has requested permission to do so.

Mr. HESELTON. I was going to ask, having been beseeched by one of your people, have you beseeched the Ways and Means Committee?

Mr. BATZELL. I have requested permission for the association to testify.

I noted with interest the legislation which Senator Capehart last week introduced into the Senate.

Mr. HESELTON. How about the other phase of that question? Do you see anything of possible value in preventing the subsidization of the refining and marketing operations by confining the depletion allowance—restricting it—to crude operations only?

Mr. BATZELL. The depletion allowance, as I understand it, applies generally to crude operations now.

Mr. HESELTON. It applies to crude, but is there not also a possibility, and is it not a fact, that, as it is handled, it reaches into refining and marketing? In other words, there is no definite restriction under the law, as I understand it, which compels anyone who takes advantage of this depletion allowance to use it for the replacement of the very resource upon which the depletion is based.

Mr. BATZELL. As I recollect the law, depletion allowance can only be taken from the well or property from which production is actually derived, and the depletion allowance, however computed, must be computed against the barrels produced from a given well or given property—no production, no depletion.

Now, perhaps someone in the audience can correct me on that. But, as I understand depletion allowance, that is the rule of law.

Mr. HESELTON. I think probably you are right about that. But that is the formula, so to speak, by which the amount of the allowance is arrived at.

Now, then, the dollars that are retained by virtue of not having to pay them into the Treasury are in the company treasury. Those dollars, so to speak, are not earmarked—at least, I do not understand they are earmarked—and used exclusively for exploration and development. They can be used, if the corporation or individual concerned desires to use them, to take care of any losses on refining or marketing or any other phase of the business other than the exploration and development.

Mr. BATZELL. I presume that is right, sir; that the money available from the difference in taxes is generally available to the company. I think that is why a good many independent refiners only wish they could get a better depreciation base of their own to be able to handle investment in further installations of obviously high risk. Perhaps other reasons, of course, are operating there. I do not know. The depletion allowance is a tax consequence as depreciation is a tax consequence and in both instances only the difference in taxes is what is available. To a certain extent, and a very difficult percentage to measure, they obviously represent money retained in the company which otherwise would be paid out in taxes if depreciation or depletion were not proper deductions—in the same way as an individual, if he did not have any children, would pay more taxes than if he has the deductions permitted for the children.

Mr. HESELTON. I certainly do not expect you to make an offhand answer to that problem.

Mr. BATZELL. There is one thing that I did hear in depletion allowance discussions previously by the committee, now that you have brought the subject up, that seems to me might be mentioned. There seems to be an impression that the various geological and geophysical exploratory costs could be expensed. I think that is an error. I think there was a ruling in 1950 by the Treasury, T. D. 5005, or something like that, which required all producers, so far as such costs were concerned, to capitalize those and treat them as a part of the cost of the property.

I was here last week and I heard some testimony, and it seemed to me that there was some confusion on that point. I think you will find that to be correct.

Mr. HESELTON. I was going to comment that I do not know what the chairman's program may be with reference to any inquiry of Treasury representatives on that depletion allowance question. I do not think we should ask you to bind yourself on that.

The chairman is now returning.

Mr. Chairman, we have completed the examination of the witness. He has expressed a desire to speak now to the questions that you asked on July 1. I understand some of the witnesses have indicated they do not feel they are competent to answer certain questions.

The CHAIRMAN. If he cannot, he can say so.

Mr. BRATZELL. I haven't said I was competent. I said I preferred to answer them now, if I could. I explained before that I represent

the Refiners Association, and many of these things are not something we can answer.

The first question, sir, as I understand it, is: "Do the increased prices truly reflect the operation of normal market factors of demand and supply, or are they the result of other causes?"

As I have attempted to explain in the prepared testimony, and in my general summary of that prepared testimony, in my view, the independent refiner—and that is all I can talk about—had to increase these prices to the extent that he could, or else he was going to be operating substantially in the red and was very quickly faced with going out of business.

The second question is: "Was an invitation for someone else to start these price increases issued last May by our biggest oil company?"

I take it that that refers to the increased crude price. I have no idea as to what the significance of the statement referred to under the question is, and whether it had anything to do with the action that Phillips took or didn't take.

I haven't discussed it with any of the big companies or with Phillips or with Phillips' representatives, and nobody with whom I have talked in the association has given me any indication that he knew that any such crude increase was underway.

I rather got the impression that it came as a surprise.

Mr. HESELTON. I think the significance lies in the fact that this particular spokesman for the industry—I will put it this way: that the industry at that time opposed any attempts to raise the price of crude up to the time of this statement. In other words, whether that is a signal for the industry to go ahead.

Mr. BATZELL. Well, I certainly do not know that. I am just completely at a loss, quite candidly, to have any knowledge of the possible consequences, if any. The independent refiners, basically, are not producers of crude oil in any substantial quantity. Personally, from my point of view, the statement referred to here first gained prominence in my attention after the commencement or about the time of the commencement of these hearings, at which time it was pointed up.

Three, "How did it happen that when one company initiated a price increase, all of the others so quickly followed suit? Was this an expression of free competition?"

Well, I take it that, from the crude side, it was absolutely necessary for most independent refiners to preserve their crude connections, and once it looked like the price increase on crude was going to stick, they promptly increased their postings in order to maintain crude flowing to the refinery.

Does that answer the question?

Mr. HESELTON. You may proceed.

Four. "Did the company initiating the increase in the price of crude oil do so because it had been losing business to its competitors?"

I do not know. Mr. Keeler, of Phillips, was here, I gather, and testified that was not the sole reason. But his words speak for themselves. I cannot speak for Phillips.

Five, "How can the increases in crude oil, gasoline, and fuel-oil prices be justified today in view of our having the greatest proved

reserves we have ever had, record rates of production, high inventories of production, high imports, and excess of production capacity of a million barrels a day over current rates of production?"

Again, so far as the independent refiner is concerned, he increased the price of his products, did it promptly, to attempt to recover the maximum extent possible in the face of a crude-price increase which he was confronted with paying immediately.

Six, "How can the fuel-oil price increase be substantiated at this time in view of the high level of stocks and seasonal ebb in demand?"

I take it that this question primarily goes to the east coast situation. My knowledge of the stock situation on the east coast is not great, but there are one or two points that do occur to me.

First, there has been an effort by the Federal Government over the past 2 years to increase tankage at terminals in the east coast area and elsewhere in the country especially at what they call the ice-bound ports, ports difficult to get to when the winter freezes up the Great Lakes and the movements along the Erie Canal.

The purpose of constructing that storage, presumably, was to fill it with products against the time when it will be drawn down. I presume if that purpose is successful, stocks would increase. But I do not have a positive knowledge as to the relative size of stocks in the light of day's supply or projected fuel-oil demand.

There is, of course, one other factor which has been several times mentioned, and that is, during May of last year there was a refining strike affecting about one-third of the productive capacity of the refineries of the Nation and about two-thirds of the aviation gasoline productive capacity. As a result of that, I believe that stocks probably were in terms of day's supply, and absolutely, disproportionately low last year.

Seven, "Is the increase in the price of fuel oil an expression of a policy of discouraging consumers from using oil for fuel?"

So far as I know, categorically, no. I think the refiner is interested in selling all of the products which he makes, and fuel oil is one of the products which he cannot help but make. I do not think he is interested in driving his customer away. I think his real problem is the problem which has been discussed in the statement, the problem of recovering to the maximum extent possible, the increase in cost.

Eight, "Has domestic production been so restricted so as to jeopardize or reduce supply below current demand through the manipulation of the rates of oil to be produced by the Texas Railroad Commission or other commissions?"

I do not know. That is a production problem.

Nine, "Why has the Texas Railroad Commission, since the increase in the price of crude oil, now raised the amount of oil which may be produced although that production still exceeds demand by 400,000 barrels daily?"

Again, I do not know. These are questions which go to the problems of production, the attitudes and effects of the State regulatory commissions. I, representing refiners, am not competent to answer them.

Ten, "In what way do the sustained high earnings of the oil companies show a need for price increases to meet rising costs?"

Well, in my statement I have endeavored to point out that so far as the independent refiner is concerned, his earnings, quite opposed

to being sustained and high, have substantially decreased since the start of Korean hostilities. Our evidence indicates that his net profit has dropped, in some cases to zero, and in general by 48 to 75 percent over that period of time. He has not had and does not now have high earnings, and his earnings for the past few years have not been sustained in any manner except on a constantly downward trend.

Eleven, "In view of the record drilling in 1952 of nearly 46,000 wells, and a continuation of drilling through the first quarter of 1953 at the same rate as 1952, what is the need of a price increase as incentive for additional natural drilling of wells?"

Again, that is a production problem and I, as a refiner representative, am not competent to attempt to answer the question.

Twelve, "How far has the change in the rates for ocean tankers affected downward the price for heating oils on the eastern seaboard inasmuch as the increased rates for tankers was urged a year ago as reason for a need to increase prices?"

That is a question which goes to operations of resellers, marketers, and transporters on the eastern seaboard. None of our membership is engaged directly or indirectly in that business, and I just do not know the answer.

Thirteen, "Why has California, a traditionally large supplier of oil, been forced to import oil from other areas to supply west coast consumers and to increase prices, reportedly to meet the higher costs of such imports?"

Again, we do not have membership in California. But from general knowledge, it appears that California has been in a short position on crude oil and products, and that this threatened short position existed some time ago, has been aggravated by the Korean conflict, and continues to exist, unless supplemented by material coming from other sources.

Mr. HESELTON. Mr. Batzell, I am sure no one expects you to answer the next two questions.

Mr. BATZELL. I will say again I, as an independent refiner representative, am not competent to attempt answers to them.

Sixteen, "Do the increased prices in gasoline and fuel oil merely represent a forecast of the higher prices which the major oil companies have intimated would follow the enactment of any policy to restrict imports?"

I know nothing about what the major oil companies are going to do. But I have testified here, and I think others for the independent refiners have indicated quite clearly also, that they feel, if the market will support it, that additional increases in price to the refiner are desirable and necessary. How quickly that can come about or will come about, if at all, I do not know, and I presume they do not know.

The point is that the independent refiner has not been able, adequately, to provide, out of his earnings, for the technological improvements that are necessary. He has been operating in a loss position or a break-even position for several months and his earnings have seriously deteriorated since Korea. Something, presumably in the way of an increase in price, will have to come about if he is again to regain a satisfactory earning position.

Seventeen, "Or are the higher prices for crude oil the result of some understanding reached to avoid enactment of a policy restricting imports?"

I would presume not.

Mr. HESELTON. Any questions?

On behalf of the committee, I want to thank you, Mr. Batzell, for presenting this to us and for the discussion which you have given.

I might make a statement that the witnesses tomorrow will be the Honorable Harold E. Stassen, Director of Mutual Security, accompanied by Mr. Glen H. Craig, Acting Assistant Director of Supply of that Agency; Mr. Cornelius J. Dwyer, Chief of Petroleum and Petroleum Equipment Branch of that Agency; and Brig. Gen. A. H. Johnson, Chief of the Petroleum Program, Office of the Secretary of Defense.

The committee will stand adjourned until 10 o'clock tomorrow morning.

(Whereupon, at 4:37 p. m., the committee adjourned, to reconvene on Wednesday, July 15, 1953, at 10 a. m.)

PETROLEUM STUDY

(Gasoline and Oil Price Increases)

WEDNESDAY, JULY 15, 1953

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D. C.

The committee met at 10 a. m., pursuant to recess, in room 1334, House Office Building, Hon. Charles A. Wolverton, chairman of the committee, presiding.

The CHAIRMAN. The committee will come to order.

Today in our hearings on the recent increases in the prices of oil and oil products we come to a third phase of our inquiry. Hitherto we have heard from some of the large users of oil products like the transportation industry. We have heard representatives from the petroleum industry, representatives from the producing, refining, and marketing branches of that industry, both major and independents.

While that phase of our inquiry is not completed, today we are hearing some of the officials in two areas which are of great concern to the Government and to the taxpayers of this Nation. One is the area of the financial aid which we are giving to our friendly nations across the sea. The other is the tremendous amount of direct and indirect oil purchases made by our defense program.

The subject of petroleum in our foreign-aid programs has been one which this committee has given great attention. Early in 1938 when the original European recovery program was first proposed we had occasion to inquire into the role of petroleum and petroleum equipment in that program and issued a report that I feel today is marked as an excellent analysis and prediction of just what petroleum would mean in the recovery effort.

Subsequently, we have taken up with the Economic Cooperation Administration and its successor, the Mutual Security Agency officials the development of that program on the efforts not only to restore the economic and industrial capacities of those nations but to meet the continuing dollar deficits they are experiencing.

Today, accordingly, we are pleased to have as witnesses before us representatives of the Department of Defense and the Mutual Security Agency. We expect later this morning the presence of former Gov. Harold Stassen, now Administrator of the Mutual Security Agency, to tell us just how the European nations will be affected by the increase in crude oil and products, particularly if the 25-cent barrel increase in the Middle East should become general. We also expect to hear from Gen. E. H. Johnson, Chief of the Office of the

Petroleum Program, Office of the Secretary of Defense, as to the effect that this increase would have upon our national defense appropriations.

The first witness will be Mr. Cornelius J. Dwyer, Chief of the Petroleum and Petroleum Equipment Branch, Office of the Director of Mutual Security.

Mr. Dwyer, you may proceed.

STATEMENT OF CORNELIUS J. DWYER, CHIEF, PETROLEUM AND PETROLEUM EQUIPMENT BRANCH, MUTUAL SECURITY AGENCY, ACCOMPANIED BY G. H. CRAIG, DEPUTY ASSISTANT DIRECTOR FOR SUPPLY; AND HOWARD MORRISON, ASSISTANT CHIEF, PETROLEUM AND PETROLEUM EQUIPMENT BRANCH

Mr. DWYER. Mr. Chairman and members of the committee, I have with me today my superior, Mr. Glenn Craig, on my right. He is Acting Assistant Director for Supply of the Mutual Security Agency and is here to answer questions which may go beyond the field of petroleum into the overall mutual security program. I have with me, also, my deputy, Mr. Howard P. Morrison.

With your permission I would like to read a brief statement.

You asked us to come here today to discuss the effect of the recent increases in the United States price of crude oil and petroleum products "upon the dollar deficit of those nations to whom we are supplying aid." Despite the fact that MSA stopped financing nonspecialty crude oil last year, the agency remains interested in the price of this commodity as well as in the price of specialty crude oil and petroleum refined products which we do finance, because of oil's great importance in the dollar balance of payments of these nations.

Although two Middle East crude producers have raised their prices across the board by 25 cents per barrel, we do not know as yet whether the other companies will follow them.

Product prices have gone up in the rest of the world in response to the increase in the United States since everywhere they are based on the prices quoted in the United States Gulf plus freight from the Caribbean, the Persian Gulf, or Indonesia. The new level of product prices has not yet firmed up, but we have made some calculations as to the future level of prices based on the product markups which followed other increases in the price of crude oil.

If the past relationship holds true, Western Europe[1] imports of petroleum products from dollar sources for fiscal year 1954 will rise in cost by $12 million, from an estimated $205 million to an estimated $217 million. The increased cost of Europe's relatively small imports of United States and Venezuelan crude oil is estimated at $3 million.

These increases will also apply to the products refined in European refineries. We estimate that European consumers will have to pay an additional $122 million in local currency as a result of these markups. It is impossible, however, to calculate the effect of this increase in the

[1] Countries which are members of the Organization for European Economic Cooperation: Austria, Belgium-Luxembourg, Denmark, France, Germany, Greece, Iceland, Italy, Trieste, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey, and the United Kingdom.

refinery margins on Europe's dollar balance of payments. Taxes will have to be paid upon it and the subsidiaries of the American companies concerned, which own approximately 25 percent of Europe's refining capacity, may not be able to remit all of their added profits after taxes.

The profits made by subsidiaries of the British companies, which own 45 percent of capacity, will move to the United Kingdom through the European Payments Union. Thirty percent of European capacity is owned by independents and their additional profits after taxes will presumably remain in the countries concerned.

The United Kingdom will benefit from the increased margin of the continental refineries owned by British companies. It will also profit from product sales to the rest of the sterling area and elsewhere in the worldwide markets of these companies. A portion of this additional income will ultimately flow to the Netherlands, through its interest in the Royal Dutch Shell group.

It may be, of course, that product prices will not increase to Europe by the full amount of the increases in the United States. The relationship between crude oil prices and refined product prices in the Mediterranean has not reflected the actual supply situation for some time. Partly as a result of too high a spread between crude and products, there has been overexpansion in that area and the natural result has been local price-cutting. There are signs that a new price structure may be in the making, a structure which would result in lower prices in the Mediterranean.

It is also possible that world prices for the more valuable products may not remain tied to United States prices. The only petroleum product which the United States now imports in significant quantities is residual fuel oil, since the import tax on most other products is quite high. For instance, it amounts to fifty-two and a half cents per barrel or one and a fourth cents per gallon on gasoline.

Since the war, moreover, the United States has ceased to be a major exporter of bulk petroleum products, although there was a temporary increase in this trade in 1951 and 1952 as a result of the Iranian crisis. Since the United States now exports only relatively small quantities of motor gasoline and the high tariff precludes its import, the domestic market for gasoline may become isolated from the world market. It is thus possible that different levels of prices may ultimately be reached for gasoline and other higher priced products in the outside world than in the United States.

MSA is also aiding four far eastern countries; namely, Indochina, Formosa, Thailand, and the Philippines. We calculate that the cost of their petroleum product imports from dollar sources might increase from $42 million to $45 million.

Since the supply of crude oil in the Middle East is recognized to be abundant and the demand for petroleum products is still restricted in most European countries to conserve scarce foreign exchange, strong resistance on Europe's part to any general increase in the price to it of Middle East crude oil could be expected. The American companies, in particular, would encounter serious difficulties in obtaining the additional dollar exchange.

The argument has been made that, unless the price to the United States is increased, imports of Middle East oil would rise so rapidly

that the domestic industry might suffer. It is true that, at the current spot market tanker rate of approximately USMC—50 percent, Middle East oil apparently can be delivered to the United States east coast cheaper than crude from the United States gulf coast.

However, the spot market represents only a very small portion of the world's tanker fleet, and it is exceedingly sensitive to shifts in demand for the small number of ships available. Although this demand is weak at the present time, past experience shows that spot charter rates can rise within a matter of days to levels which would make shipments of Middle East oil to the United States in these marginal tankers prohibitive in cost.

The great bulk of international crude oil movements take place in company fleets at company rates, most of which approximate the twice-yearly London Award, which is the opinion of a group of London shipbrokers as to a 2-year time charter rate. At the current London Award rate of approximately USMC—19 percent, Middle East oil delivers to the United States east coast from the Eastern Mediterranean pipeline terminals at a price close to that of gulf coast crude.

If the price to Europe of Middle East crude increases an average of 25 cents per barrel, Western Europe's total bill in all currencies for crude oil (excluding inbond imports) for fiscal 1954 would rise by an additional $131 million, from $1,028 million to $1,159 million. MSA estimated originally that the American companies would sell $39 million worth of crude to Europe for local currencies in fiscal 1954.

These sales, of course, are limited by the amount of purchases the companies can make in the European Payments Union currency area and it is unlikely that they can now greatly increase their purchases above the presently-planned level. Thus the companies would probably ask to be paid in dollars for the increase in the price of this portion of Europe's imports—five million dollars.

We estimate that total sales for dollars, including this item, would increase from $209 million to $239 million, providing that European nations place no new restrictions on the use of dollar exchange for petroleum purchases.

Most of the nondollar oil, of course, is sterling oil; and while Britain's dollar deficit would become somewhat larger, that country's overall balance of payments would benefit by a much larger amount from increased profits on sales of crude oil for other currencies to continental Europe and the rest of the world.

To sum up, if Middle East crude-oil prices do not increase, the direct dollar cost of price increases in imported products and Western Hemisphere crude oil to the OEEC nations and the far eastern countries receiving MSA aid would amount to an estimated $18 million. If Middle East crude also rises in price, the additional dollar drain of this group of countries would total $48 million.

The CHAIRMAN. Are there and questions, gentlemen?

Mr. HESELTON. I am not sure that I quite get the total increases. You place it at an estimated $18 million with a possible additional $48 million, or $66 million total. You have an increase of $12 million in Western Europe with a possible additional $3 million on imports from the United States.

In the Far East you have a possible increase of $3 million. That is exclusive of the $122 million that European consumers would have to pay in local currency.

Finally, if I understand it correctly, you have the figure of $131 million on Middle East crude to Europe. That may be already in the picture, I am not sure. There is $10 million on total sales for dollars. That is quite a substantial amount. I do not know what the total is, but it certainly is over $66 million.

Would you be willing to go over that again and give us the total increase?

Mr. DWYER. On the dollar side, the increase is made up of $12 million representing the increase on product imports to Europe, plus $3 million on United States and Venezuelan crude oil, making $15 million, plus another $3 million on far eastern products, making a total $18 million. Those increases are in existence now.

If middle eastern crude-oil prices go up, by 25 cents per barrel at all loading points, the additional dollar cost would be $30 million; 18 plus 30 is 48. That is the increase in dollar cost.

The total price increase to European consumers is another calculation. The total increase in the cost of imports is a third. The consumer will pay an additional $122 million in local currency for the product imports plus the output of European refineries. Of this total, $12 million represents the increased price of imported dollar products.

We are looking up the figure for imported sterling products. I suppose it will be something like twice that. The total of $122 million is the increase in price to the consumer.

This increase to the consumer is the same whether middle eastern crude oil goes up in price or not because the product-price increase has already taken place.

The increase in the cost of crude-oil imports from the Middle East—including dollar, sterling, and franc crude oil—is $131 million. To this we add the figures on dollar-product imports and imports of United States and Venezuelan crude oil which are another $15 million, for a total of $137 million, plus this figure we are looking for on the increased cost of sterling-product imports, and sterling crude from Venezuela. The final figure will be the total increase in the cost of imports to Europe.

So there are three different things: The increased price to the consumer, the increased dollar cost, and the increased overall cost of imports.

Mr. HESELTON. Then the $48 million is the increase as of now, irrespective of what happens in terms of Middle East prices?

Mr. DWYER. The two companies that have raised prices, Gulf and Anglo-Iranian, are companies that do not sell significant quantities of oil to Europe for dollars. Gulf sells most of its oil to the United States. Anglo-Iranian sells for sterling. So if we could assume their prices could remain up and the others down, the increased cost in dollars on Middle East crude would be very small.

As it stands now, the increased cost in dollars is $18 million, representing products and Western Hemisphere crude only. If the other companies follow Gulf and Anglo-Iranian, on a Middle East crude increase, it will be 48 million in dollars.

Mr. HESELTON. I suppose some of it must be involved so far as the military aid is concerned, or is it exclusively on oil that will go into the civilian economy?

Mr. DWYER. This is oil that goes into the civilian economy and for the Armed Forces of the countries concerned. It excludes United States forces in Europe.

The increased cost on sterling product imports is $26½ million and the increased cost on sterling crude from the Caribbean is $6 million.

Mr. HESELTON. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Younger.

Mr. YOUNGER. You said that the price of the products has already gone up?

Mr. DWYER. Yes, sir.

Mr. YOUNGER. Then you say that if the crude in the Middle East goes up, there will be another increase on top of what has already occurred?

Mr. DWYER. Not in products, sir. The increase will be in the imported price of the crude oil from which the products are made.

Mr. YOUNGER. What is the increase in the products that have already gone up due to?

Mr. DWYER. It increases the refiner's margin. The average increase on Europe's range of products is something like 23 cents a barrel. It varies between refineries, but they average an increase of 23 cents in their refinery margin upon which they have to pay taxes and so forth.

Mr. YOUNGER. Has that been an increase that has been recent?

Mr. DWYER. It followed the product-price increase here because all of European product prices are based on United States prices.

Mr. YOUNGER. Then it looks as though if the Middle East would raise again, that should result in an increase in the products, or is there much crude imported or taken from the Middle East to the refineries in Europe?

Mr. DWYER. Nearly all of the European refineries run on Middle East crude now.

Mr. YOUNGER. If that goes up to 25 cents a barrel, would not that affect the price of their products, also?

Mr. DWYER. The prices are not set in that way. The product price is set independently of the crude-oil price.

Mr. YOUNGER. It is different than here in this country?

Mr. DWYER. It is a very peculiar system and has all kinds of anomalies in it. As a result of these anomalies, the price of petroleum products in Italy and Greece, which are much closer to the Persian Gulf than France, is higher because it is set as if it came from the Caribbean. It is an outdated price structure.

As we say in the statement, there are a good many pressures upon it. It is pretty shaky at the present time.

Mr. PELLY. Will the gentleman yield?

Mr. YOUNGER. Yes.

Mr. PELLY. Is there a so-called cartel that controls the price in Europe?

Mr. DWYER. Not so far as I know, sir.

Mr. YOUNGER. I do not have any other questions, Mr. Chairman.

The CHAIRMAN. Are there any further questions, gentlemen?

Mr. HARRIS. Yes.

The CHAIRMAN. Mr. Harris.

Mr. HARRIS. Mr. Dwyer, if Mr. Heselton indicated any confusion in this matter, I wish you would understand my state of mind. In the first place, you say that the Mutual Security Administration stopped financing nonspecialty crude oil last year. What do you refer to as nonspecialty crude oil?

Mr. DWYER. It is easier to define "specialty." Specialty crude oil, sir, is the oil from which lubricating oils or asphalt are made, special types which are not run for the usual range of bulk products. These are just about the only shipments of Venezuelan and United States oil to Europe at this time, except for a few old refineries or parts of refineries which cannot run the high sulfur middle eastern crude oil.

Mr. HARRIS. In other words, the specialty crude oils which you do mention in your next statement are a relatively small part of the crude oil and products involved?

Mr. DWYER. Yes, sir.

Mr. HARRIS. They would have to do with motor oil and asphalt?

Mr. DWYER. Yes, sir.

Mr. HARRIS. It has nothing to do with residual, gasoline, and so forth?

Mr. DWYER. They do make some residual and some gasoline out of it, but it is really refined for its special qualities.

Mr. HARRIS. You say, also, there are two Middle East crude producers that raised their prices across the board by 25 cents per barrel and MSA does not purchase from these 2 companies.

Mr. DWYER. We do not purchase any middle eastern crude.

Mr. HARRIS. You do not purchase any middle eastern?

Mr. DWYER. We have not for a year.

Mr. HARRIS. In other words, MSA has no particular interest, direct interest, so far as furnishing funds is concerned in any of the middle eastern shipments and purchases?

Mr. DWYER. That is right, sir.

Mr. HARRIS. Do I understand you to say the only possible way that the MSA program can be affected by this price adjustment is the relatively small amount that is provided through this specialty crude oil?

Mr. DWYER. And imported products. That is the only direct way in which we would be affected. For instance, for next year we estimate that the total imports of dollar crude oil and products from all sources into Europe will be $443 million. About half of that is middle eastern crude oil, and we do not finance that. We estimate that we will finance about $90 million of petroleum products and this small quantity of specialty crude oil. So we will finance about half of the balance left after you deduct the middle eastern crude oil.

We have an indirect interest in the effect of this increase on the dollar balance of payments on the countries concerned, of course.

Mr. HARRIS. As I understand it, your entire statement is based on if this happens or if this does not happen.

Mr. DWYER. Yes, sir.

Mr. HARRIS. So far as you can see now, there is no immediate or direct effect on the situation?

Mr. DWYER. Except for the increase in the price of imported products.

Mr. HARRIS. You mean from the United States or Venezuela; do you not?

Mr. DWYER. Yes, sir.

Mr. HARRIS. How does it happen that this imported product to Europe or else the middle eastern product makes its way in the European countries through the refineries and finds itself laid down here in the United States at about 45 cents a barrel less than the product price in this country?

Mr. DWYER. There is a surplus of refining capacity in Europe at this time.

Mr. HARRIS. There is a surplus, you say?

Mr. DWYER. Yes.

Mr. HARRIS. Yet MSA is financing additional imported products?

Mr. DWYER. The only exports from Europe to the United States of which I know, and we have been watching this very carefully, are a couple of cargoes of residual fuel oil that have moved from France to the New York area. These cargoes were moved in tankers which had previously taken Texas crude, specialty Texas crude, to the refinery. We believe this is an economic kind of movement.

I do not think we should complain about that kind of movement because the tanker was going back empty. Otherwise, it would have to be in ballast.

Mr. HARRIS. I am not complaining about the situation; I just want to know the facts about it.

Mr. DWYER. These are not the products that we finance; this is residual fuel oil. What the Europeans buy from the United States are specialty products, lubricating oils, greases, waxes, and aviation gasoline which is very important because they do not make any in Europe. In return these few cargoes of residual have been moving, but we are not financing any residual imports to Europe. We have had this kind of problem come up recently: the French may have surpluses of asphalt or residual or some product yet they ask us to finance imports of the same product for dollars for overseas territories. In most cases we will not do so. We say, "Ship it from France."

Mr. HARRIS. Suppose we try to develop an actual situation just out of this. Suppose you have $100 million worth of products from Venezuela financed by the MSA that goes into the European countries. Tell me just how that works in the MSA program, taking into consideration the sterling question and the counterpart program. Is that too much of a question?

Mr. CRAIG. Are you interested in the mechanics, Mr. Harris?

Mr. HARRIS. Yes.

Mr. CRAIG. The mechanics are as follows: Requests are made within an original allotment by a government of a participating country for $100 million worth of oil, which you mentioned. The MSA, if that seems to be within the program we have worked out with that country, will approve a procurement authorization for $100 million. That means that the importers of that country can receive $100 million in foreign exchange dollars to go and buy from the American companies shipping from Venezuela.

Mr. HARRIS. The application is made and it is approved. The oil is purchased by the importer, we will say, from Venezuela. Under the MSA program we pay for that oil down in Venezuela with dollars.

Mr. CRAIG. The dollars are made available to the Government of France, we will say, which in turn makes it available to its importer as dollars to give to the American company in Venezuela.

Mr. HARRIS. Then the importer brings the oil into France?

Mr. CRAIG. The importer brings the oil into France. He has in the meantime brought those MSA dollars, 100 cents on the dollar, with francs that he has taken into the Foreign Exchange Control Board in France. So he has bought the dollars. There is the source, then, of the counterpart. He has bought the dollars, the MSA dollars. I mean the importer.

Mr. HARRIS. The MSA has the francs?

Mr. CRAIG. The Government of France has the francs. Those are put into an account in accordance with a bilateral agreement the United States Government has with the Government of France; 90 percent of those francs are laid aside in a joint account and 10 percent of the francs are put to the account of the United States for certain specific purposes which have been indicated in legislation followed up in the bilateral agreement. We can use 10 percent of the francs for such things as United States Government obligations—administration, basic-materials development, and so on. The other 90 percent is for use within the country jointly between the United States Government and the French Government for developmental purposes of one kind and another.

Mr. HARRIS. Within that country?

Mr. CRAIG. Ordinarily within that country, or it may happen to be within their overseas territories, but it is within the jurisdiction of that Government. There are some very minor exceptions where they have gone outside.

Mr. HARRIS. The same mechanics will apply to most any product or material that is needed under the MSA program by a particular participating country?

Mr. CRAIG. That is correct.

Mr. HARRIS. Quite naturally, adjustment of price of any product or material will have some effect on the program? Is that true?

Mr. CRAIG. Yes, sir, there will be some effect on the program. The effect can be in the balance of payments which Mr. Dwyer has pointed out. It can be on the cost of materials for users within the country.

Mr. HARRIS. What other major product do we supply under the MSA program?

Mr. CRAIG. For the year to come, fiscal year 1954, the total amount which is planned or proposed within the authorization legislation to be financed in the way I have outlined to you is a total of $250 million. It is a very much reduced defense-support and economic-aid program.

Mr. HARRIS. All of that is not oil or oil products; is it?

Mr. CRAIG. The oil products part, with respect to new obligations in the next year, is only about $11 million, excluding Yugoslavia. There are still some oil products which will flow as a result of obligations made last year which the MSA is still financing, but new obligations against the $250 million which I mentioned for fiscal year 1954 are just $11 million. This is an illustrative program.

Mr. HARRIS. I appreciate that.

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What product do we send the most of or will we send the most of? Will they be steel, aluminum, oil, or what?

Mr. CRAIG. I can give you a set of figures on what we plan to send, but this one is one which the Foreign Relations and the Foreign Affairs Committees have dealt with and they have placed legislation on the records for a very large proportion of that sum to be used for surplus agricultural commodities.

I can give you a list of the commodities which it is intended should be shipped in the next year.

Mr. HARRIS. If it is a large list, it would not be necessary to have it now.

Mr. CRAIG. We can place it in the record if you wish.

Mr. HARRIS. Will you put that in the record, then, at this point for the information of the committee.

(The list referred to follows:)

Estimated procurement authorizations by country of destination, fiscal year 1954

[In millions of dollars]

	Total	Austria	France and dependent overseas territories	Germany Federated Republic	Greece	Italy	Turkey	United Kingdom	Yugoslavia
Grand total	907.5	20.0	500.0	15.0	20.0	57.5	50.0	200.0	45.0
Commodity total	262.7	18.0		15.0	18.0	20.0	48.0	100.0	43.7
Food and agricultural commodities	184.9	16.0		15.0	12.0	15.0	.2	100.0	26.7
Industrial commodities	77.8	2.0			6.0	5.0	47.8		17.0
Assistance in connection with European Payments Union:									
Ocean freight	7.3	2.0			2.0		2.0		1.3
Financing British and French NATO production, and equipment and support of forces in Indochina	600.0		[1] 500.0					[2] 100.0	
Special carryover obligation for aircraft production	37.5					37.5			
COMMODITY DETAIL									
Food, feed, and fertilizer	95.8	14.0			12.0		.2	60.0	9.6
Bread grains	39.6				12.0			25.0	2.6
Coarse grains	39.0	14.0						25.0	
Fats and oils	17.0							10.0	7.0
Fertilizer	.2						.2		
Fuels	15.6				1.1		10.0		4.5
Petroleum and products	14.6				1.1		10.0		3.5
Coal and related fuels	1.0								1.0
Raw materials and semifinished products	104.4	2.0		15.0	3.0	15.0	3.7	40.0	25.7
Cotton, raw	89.1	2.0		15.0		15.0		40.0	17.1
Nonferrous metals and products	.5				.5				
Iron and steel mill products	9.5				1.0		2.9		5.6
Chemicals and related products	2.0				1.0		.8		.2
Hides, skins, and leather	3.3				.5				2.8
Machinery and vehicles	40.8	2.0			1.9	3.0	30.0		3.9
Miscellaneous	6.1					2.0	4.1		
Miscellaneous industrial commodities	6.1					2.0	4.1		
Other									

[1] Consists of $100 million for financing French NATO military production and $400 million for financing equipment and support of forces in Indochina.
[2] For financing British NATO aircraft production.

Source: Mutual Security Agency, June 29, 1953.

Mr. HESELTON. Will the gentleman yield?

Mr. HARRIS. Yes.

Mr. HESELTON. You have $11 million budgeted for petroleum products in the next fiscal year, is that right?

Mr. CRAIG. I have to correct that. It is $14.6 million. There is $3.5 million estimated to go to Yugoslavia which I had left out.

Mr. HESELTON. Does this price increase so affect your request that you could not carry that out, the present 14.6, in terms of quantity that you had in mind when you made your request for appropriations?

Mr. CRAIG. This is a very difficult question to answer for the reason that in making a request for a sum to accomplish particular objectives, one expects some prices to go up, some prices to go down. Since the request was made, there probably have been some drops in the price of grain and the like. So it is very difficult for me to pinpoint the change in the price of petroleum and say this has changed the picture with respect to the aid total. The fact is that it will make it that much more difficult to achieve the objectives, if this is in response to your question.

Mr. HESELTON. You do not contemplate as of now making any supplemental request because of this situation?

Mr. CRAIG. I think the answer is no because if we were to do that from day to day, we would have to pick what are the new price changes on a great many commodities that do vary, as you know, a great deal.

Mr. HARRIS. The price of grain has declined.

Mr. CRAIG. That is correct.

Mr. HARRIS. In other products you might have higher prices. You do have some steel that goes into this program, do you not?

Mr. CRAIG. That is correct, sir.

Mr. HARRIS. Did the relatively recent increase in the price of steel have much effect?

Mr. CRAIG. If you had asked me that a year ago, I would have said yes. This year the steel import program for Europe is very much less than it has been in the past. The reason for that is that Europe has now come to a point where except for a few specialties they are pretty nearly self-sufficient. Of course, they are large exporters of steel.

Mr. HARRIS. You did have that economic problem in the case of steel a year ago?

Mr. CRAIG. That is correct. The United Kingdom was receiving 1 million tons of steel a year ago. The amount for the current year is very much smaller.

Mr. HARRIS. That price increase sometime ago was about $4 a ton, was it not?

Mr. CRAIG. There was one increase of about that amount.

Mr. HARRIS. One million tons a year, that would have been $4 million.

Do you send with the agricultural commodities certain types of beef?

Mr. CRAIG. There is a very limited meat program that is financed by the MSA. I think the only meat which is financed by the MSA or exported from the United States is for the Greek Army. Even this is a sporadic thing from time to time. So it is extremely small. It is negligible.

Mr. HARRIS. The declining prices, then, of cattle and meat have little effect on the program?

Mr. CRAIG. That is correct, except to the extent those reductions are reflected in the South American market which is a major source of meat for Europe.

Mr. HARRIS. Do you have much aluminum in your program?

Mr. CRAIG. There is no aluminum to speak of to move from the United States. The United States is an importer from Canada, largely. There is a large program of aluminum from Canada to the United Kingdom and to some other European countries.

The financing by the program will be very, very small. If we finance aluminum imports of as much as $1 million or $2 million, it is likely to be the maximum. In other words, there is practically none to be financed by us, but there will be a large import from dollar areas, from Canada.

Mr. HARRIS. Do you finance the importation of automobiles?

Mr. CRAIG. There have been automobiles financed from the United States to Europe. We do not contemplate there will be automobiles financed in the coming program. There may be a few for particular purposes.

Mr. HARRIS. But you have had in the past some financing on automobiles?

Mr. CRAIG. That is correct, sir.

Mr. HARRIS. Any increase in price in automobiles has had quite a lot to do with the program, has it not?

Mr. CRAIG. It would have that much effect on the increased cost to Europe. At the same time, that is ordinarily offset by what has been a substantial export of automobiles by the United Kingdom and France to the United States. So these price increases offset each other.

Mr. HARRIS. We send them over there and give them the money to pay for them and they make them and send them over here and we pay for them.

Mr. CRAIG. To the extent they have shipped them, we have not had to fill in. They have been able to earn dollars to support their program.

Mr. HARRIS. It is a good program, and I appreciate that.

The CHAIRMAN. Are there any further questions, gentlemen?

Mr. ROGERS. I do not believe I have any questions of the gentleman, but I do want to say I was more or less amazed and surprised to see the effect of the increase of 25 cents a barrel on crude oil on the economic situation in this world.

The CHAIRMAN. What, if any, influence does the price of crude in the Middle East have in fixing the price of crude in this country?

Mr. DWYER. None, sir, except possibly to the extent that the fear of imports holds down price increases and delays them. It usually works the other way around. The United States price has the influence on the Middle East price.

The CHAIRMAN. Do you attribute the increase in the Middle East by the two companies that I understand from your testimony have already acted to the fact there had been an increase in the United States?

Mr. DWYER. That is the way they explain it, sir.

The CHAIRMAN. Was any other explanation given than that they were following suit?

Mr. DWYER. I have not seen their statements, but as reported in the press, that was their only explanation.

The CHAIRMAN. You cannot give any answer to the question, then, as to why the Middle East set an increase as they did, other than the fact they did it?

Mr. DWYER. That is all, sir. There has to be a relationship between the Middle East price and the United States price, but opinions differ as to what that should be. It is very closely related to freight rates.

The CHAIRMAN. We know that Governor Stassen has come into the room.

Governor, we are very pleased, indeed, to have you with us today. We had an arrangement with the witnesses that they would cease and desist upon your appearance so that your time would be concerned with our hearing you immediately.

STATEMENT OF HON. HAROLD E. STASSEN, DIRECTOR, MUTUAL SECURITY AGENCY

Mr. STASSEN. Thank you, Mr. Chairman.

Mr. Craig and Mr. Dwyer are the men in my department concerned with petroleum matters. It so happens that President Eisenhower's 1954 fiscal year mutual security program is before the Appropriation Committees of both Houses, which has been, rather naturally, taking up my attention and time.

I am pleased to respond to your invitation and to make available not only these two gentlemen but any information of my department you might wish and to return if you wish for discussions of greater length at the conclusion if you wish to question me in regard to any of the policies involved in my department.

The CHAIRMAN. Our inquiry was directed particularly as to what effect the increase of crude, either in this country or the Middle East, would have on your program. We have understood from the witness that you are not supplying crude at this present time to the European countries. That left the question remaining, then, as to what effect the increased price would have on their deficiencies that would require us to probably make up.

Mr. STASSEN. That is the second important phase of the analysis. I believe my colleagues can give you the possible range of effects and the uncertainties that are still involved as to haw the direct Near East price for Europe will be affected by this United States change. I think that is not yet finally determined, how the Near East price will be fixed by this United States change, although it is quite obvious they will have an economic relationship of some kind.

The CHAIRMAN. We have been informed that on the basis of the increase that has been made by the Gulf and the Anglo-Iranian companies that it would mean as much as—was it $11 million or $18 million?

Mr. DWYER. If all the companies increase, the increased cost of the Middle East crude oil would be $30 million. The $18 million is the increase on products on Western Hemisphere crude which has already taken place.

The CHAIRMAN. So the total would be $48 million. If you know, what tie-up is there between the Gulf Oil Co. and the Anglo-Iranian? Do they jointly operate Kuwait?

Mr. DWYER. They are each 50–50 partners in the Kuwait Oil Co., but they sell their products separately after they are produced.

The CHAIRMAN. Why was it that 5 days elapsed before the Iranian company followed Gulf in the increased price?

Mr. DWYER. Gulf's markets are the United States. At the moment they ship only a very small amount of crude oil to Europe. Apparently, they believed that they could get the increase on shipments to the United States. Anglo-Iranian presumably had a different view of whether the increase would stick and waited that long to do it. The other American companies presumably are considerably more pessimistic about the chance of an increase sticking, which is why they have not increased. There are different views on these things.

The CHAIRMAN. I suppose that is based somewhat upon optimism, encouragement to the committee, that the prices might not stick? That is the first indication we have had of that.

Governor Stassen, do you have any information with respect to whether the Iranian fields in the Abadan refinery are likely to supply any time soon?

Mr. STASSEN. No. That dispute is unresolved between the Government of Iran and the Anglo-Iranian Oil Co. Like any unresolved dispute, it is not possible to predict its course or its duration.

The CHAIRMAN. Would the solution of that situation have any effect upon the Middle East prices and indirectly upon the Mutual Security Administration program?

Mr. STASSEN. It is clear that the solution of that dispute would result in increased economic resources being available to the Government and the people of Iran. That would directly decrease the necessity of United States economic aid in relationship to Iran. Also, of course, if the dispute were resolved, there would be an added supply of oil available. You must also then give consideration to what happens on the demand side by reason of the other things happening around the world or by other developments on the supply side.

As a general rule, an increased availability of supply, if not accompanied by a greater demand for use, results in some downward movement of the price. That does not always follow. That is a general economic rule.

The CHAIRMAN. Would it be proper for me to inqure as to whether the MSA is interested in seeing that the Iranian production is revived?

Mr. STASSEN. It is President Eisenhower's general policy that the development of economic strength of the non-Communist nations of the world, contributing in turn to their own ability to support sound military strength, is a part of long-term United States national security policy.

In carrying out that basic policy, which I believe the President expressed in his inaugural address and at other times, including his message when he sent the mutual security program to the Congress, we endeavor, at all times and in particular relationship to Iran, as well as with other countries, to encourage those steps which will improve their own economic conditions by their own efforts.

That applies to this situation. We do not endeavor to get into any of the details, nor do we endeavor to in any way indicate what a solution should be. We do seek in all these situations around the

world to see that there is an awareness of the economic drain that flows from a particular dispute or a particular adverse economic policy and try to work with them in the solution and strengthening of their own economic situation.

We do feel very strongly that in the management of the mutual security program the more rapidly we can have other countries be entirely self-supporting on their own resources while also maintaining their share of a free world collective security effort, the more rapidly we can make sound reductions in our own United States mutual security program and contribute toward the balancing of the United States budget on a favorable basis.

That is a part of our basic policy approach.

The CHAIRMAN. There are other members of the committee, probably, who wish to question the witness. Before doing so, however, Governor, I would like to present the members of this committee to you.

Starting on my left there is Mr. Thornberry, of Texas; Mr. Mack, of Illinois; Mr. Williams, of Mississippi; Mr. Rogers, of Florida; Mr. Harris, or Arkansas; Mr. Priest, of Tennessee; I am from New Jersey; Mr. Hale, from Maine; Mr. Heselton, from Massachusetts; Mr. Springer, of Illinois; Mr. Pelly, of Washington; and Mr. Younger, of California.

Mr. STASSEN. Thank you, Mr. Chairman. I am pleased to meet this committee for the first time.

The CHAIRMAN. We feel it is very fine of you in your busy life to find time to come here because this committee over a period of years has been greatly concerned with the question of petroleum. For the last 20 years this committee has had the general jurisdiction over that subject. During that time we have made many studies and we have tried to keep abreast of the situation as it happens day by day or year by year.

On this most recent increase it immediately attracted the attention of the committee to the idea of ascertaining to what extent it was necessary and what the effect would be, both domestically and in connection with our foreign program.

Mr. Harris desires to ask some questions.

Mr. HARRIS. Mr. Chairman, I just had one question because I know Governor Stassen's time is valuable.

I have been quite interested, as other members of the committee and Members of Congress, in the dispute between the Iranian Government and the Anglo-Iranian Oil Co. for some time. In the last Congress I introduced a resolution when that dispute was raging to try to provide some technical assistance toward the operation of that in order to make that source of oil available to the world market.

I appreciate the fact that President Eisenhower has said he would take no sides in the dispute, but according to newspaper reports we have received recently, the Iranian Government was told to settle the matter or very likely not to expect further aid.

I am just wondering what the reaction to the suggestion has been, if any.

Mr. STASSEN. On the specific matters of attitudes and relationships to the other governments, the Secretary of State or his assistants are the right source of information. We in Mutual Security, under

President Eisenhower's direction, are an operating department. We take our foreign-policy guidance from the Department of State and our defense policy guidance from the Department of Defense and through them the Joint Chiefs of Staff.

But from the standpoint of our operations, I believe there is no new development to report to the committee at the present time.

Mr. HARRIS. I certainly appreciate the question probably would be more appropriately directed to someone in the Department of State.

Mr. STASSEN. Yes, sir; from an attitude standpoint. From the operation standpoint, there has been no new development. We are working with the people of Iran, particularly on matters pertaining to their agricultural production and their own health, and are making some very real progress in that respect.

There are some very warm and friendly relationships which have been developed with the people of the countryside of Iran. We also have a moderate program of assisting in providing internal-security equipment to the armed forces of Iran, so that there would not be a Communist takeover in any kind of an armed insurrection in that country. You realize it is a country that has approximately 800 miles of border on the Soviet Union directly, and it does have an active Communist problem. But when it comes to the matter of granting additional economic aid, which should really be the substitute they would obtain for their own oil, we feel that that would not be a proper use of United States funds.

Mr. HARRIS. But so far as you can count on, there is no solution to the dispute inside?

Mr. STASSEN. There is no solution, that is, that now appears to be imminent.

Mr. ROGERS. Will you yield?

Mr. HARRIS. Yes.

Mr. ROGERS. Governor, what amount of economic aid is included in the security program for Iran at this time?

Mr. STASSEN. For Iran?

Mr. ROGERS. Yes; at this time.

Mr. STASSEN. As I recall, the amounts are of magnitude of approximately $20 million a year. I can furnish for the record the exact figures.

Mr. ROGERS. I just wanted to know approximately. That is all.

The CHAIRMAN. Any further questions, gentlemen?

Mr. PRIEST. Just one further question: Following your discussion with Mr. Harris about internal security as a factor in Iran, you might not wish to comment on this, but are you generally well pleased or satisfied with the progress that has so far been made with respect to internal security that might prevent seizure of the Government by Communist forces? Is that situation favorable?

Mr. STASSEN. I would say "Yes." I would say I am not satisfied because in the world situation there could be much more strength, if you please. But the internal security forces of Iran are much stronger than they were a year ago.

Mr. ROGERS. That is all, Mr. Chairman.

The CHAIRMAN. Any further questions? Mr. Pelly.

Mr. PELLY. Governor, before you came in, we had testimony to the effect that the refineries in Europe had raised their posted prices or the selling prices of their products in line with the increase in this

country although the costs of their crude oil from the Middle East in some cases has not gone up, which indicates that they do not operate on a free market in a competitive system the way we do. I think one of your problems is the economy in these European countries and the inflation has been one of the things that you have been combating. My questions is really more of a statement, but I am just thinking out loud as to what is the situation regarding the inflation in Europe that you are combating now?

Mr. STASSEN. I would say that the inflationary danger is fairly well under control, taking Europe as a whole. Their industrial production has come up very markedly in the last 2 years. The inflationary danger is not ended. There are still some rather serious situations, particularly in those instances as in the case of France where there is a very extreme drain on the resources of France because of the Indochina war. That is one of our big concerns there. But in France, you do have a situation in which, of necessity, they closely restrict their dollar imports because they do have a balance-of-payments deficiency with the dollar area. Consequently, when you are restricting the volume of an import, specifically petroleum, you do not have enough available supply inside a country to really have competitive impact on the price situation. Of course, in many of those situations, they still have price control and manage prices by the government and you do not have really the term of the law of supply and demand even apart from combinations on the business side.

You are correct that we are endeavoring in every possible way to bring greater competitiveness inside the European economy, because we are convinced that, in that way, their production base will expand, the standards of living of their people will improve, their wages will come up as a result of overall expanded production and we will have Europe carrying a greater defense effort from their own resources and with their own means, than in the present situation.

Mr. PELLY. Well, the actual price of 25 cents a barrel increase generally throughout the world now is certainly going to increase France's problem, too, in her war in the Far East.

Mr. STASSEN. That is correct.

The CHAIRMAN. Any further questions, gentlemen? If not, we thank you.

Mr. STASSEN. Thank you very much, Mr. Chairman. At the conclusion of your technical evidence, and so forth, if you wish me to come back on any particular points that will arise, I will return. Thank you.

The CHAIRMAN. Thank you.

You may continue, Mr. Dwyer.

Mr. DWYER. Sir, could I give an additional answer to the questions Mr. Harris was raising?

Mr. HALE (presiding). You may proceed.

Mr. DWYER. Petroleum, with $443 million worth of dollar imports for next year, is the biggest single commodity in the dollar-import program of these countries. It is not, as Mr. Craig said, the biggest in the MSA financial program, but it is the biggest single dollar commodity, nearly half a billion dollars, in the total import program and has been the biggest since the beginning of the aid program.

Mr. HARRIS. But the point still remains that we are not financing.

Mr. DWYER. That is right, sir. We are allocating out of fiscal 1954 funds $11 million for OEEC Europe, plus $3½ million for Yugoslavia, but we will be financing with fiscal 1954 and fiscal 1953 funds carryover about $90 million for Western Europe and $4.3 million for Yugoslavia. I think that clears up the apparent discrepancy.

Mr. HALE. Are there any other questions of Mr. Dwyer?

If not, thank you very much, Mr. Dwyer.

Mr. DWYER. Thank you, sir.

(The following material was later received:)

FOREIGN OPERATIONS ADMINISTRATION,
OFFICE OF THE DIRECTOR,
Washington 25, D. C., August 26, 1953.

HON. CHARLES A. WOLVERTON,
Chairman, Committee on Interstate and Foreign Commerce,
House of Representatives, Washington 25, D. C.

DEAR MR. CHAIRMAN: On July 15, when I testified before your committee with members of my staff on the impact of the recent increases in petroleum prices on Western Europe's dollar balance of payments, the Middle East crude-oil-price structure was still in a state of flux.

Two Middle East producers had raised their prices by 25 cents per barrel, the same as the increase in the United States, but the other 5 had not yet acted. In response to a question from you at the hearing, Cornelius J. Dwyer, Chief of the FOA Petroleum Branch, indicated that those companies may have doubted that a general increase of that magnitude could be maintained.

This estimate of the situation appears to have been correct. At any rate, prices for Middle East crude oil have now settled down to a new level which averages 17⅓ cents per barrel higher than before, instead of 25 cents. The enclosed statement, with its attached tables, outline price developments affecting Europe during the past few months and presents FOA's revised estimates of the impact of these changes on Western Europe's dollar deficit.

Sincerely yours,

(Signed) HAROLD E. STASSEN,
Director of Foreign Operations.

PETROLEUM PRICE DEVELOPMENTS AFFECTING EUROPE SINCE JULY 15, 1953

(Statement transmitted to the House Interstate and Foreign Commerce Committee by the Foreign Operations Administration, successor to Mutual Security Agency)

On July 15, when the Honorable Harold E. Stassen, Director for Mutual Security, testified before the House Interstate and Foreign Commerce Committee with Mr. Craig and Mr. Dwyer of MSA on the impact of the recent oil-price increases on Western Europe's dollar balance of payments, only two companies, Gulf and Anglo-Iranian, had raised their prices for Middle East crude oil. Gulf had increased its price 25 cents per barrel for oil from the Sheikdom of Kuwait, its only source of supply in the area. Anglo-Iranian had announced the same 25-cent increase for Kuwait and also for Iraq oil, whether loaded at the eastern Mediterranean pipeline terminals or in the Persian Gulf.

In response to a question from the chairman of the committee, the Honorable Charles A. Wolverton, at the hearing, Mr. Dwyer, Chief of the MSA Petroleum Branch, indicated that the agency felt the reason why the five other major oil producers in the Middle East had not yet announced increases was that there might be some doubt in their minds as to whether a general price increase of 25 cents per barrel could be maintained. This estimate of the situation turned out to be correct. The day after the hearing, Caltex announced an increase of 15 cents in the eastern Mediterranean and 22 cents in the Persian Gulf, and Jersey posted new prices 10 cents higher than before at the pipeline terminals and 25 cents higher in the gulf.

These two companies, like Anglo-Iranian and Gulf earlier, explained their new prices only in general terms. Jersey did say, however, that the lowered differential between eastern Mediterranean and Persian Gulf prices was intended to "give effect to current freight rates." It appears that the company first raised its Persian Gulf prices by 25 cents per barrel and then calculated the

differential between the gulf and the pipeline terminals so that crude oil from either loading point could arrive in northwest Europe at the same delivered price, at the spot market tanker rate of approximately USMC—51.5 percent (see attached tables I and II).

MSA/FOA's calculations indicate that Caltex was also thinking of "current freight rates," but a different family of rates—5-year time charter rates. In any case, the differential between the Persian Gulf and the pipeline terminals is such that at Caltex f. o. b. prices, crude from either loading point could arrive in northwestern Europe at the same delivered price, at the 5-year time charter rate of approximately USMC—37 percent. Furthermore, at the Caltex f. o. b. price, crude shipped at the same freight cost from the eastern Mediterranean would deliver in New York Harbor at the same price as Texas crude oil (see atached table III).

There is a third set of "current freight rates" to be taken into consideration—the so-called London award rates, now averaging USMC—19 percent. When MSA was financing Middle East crude oil, the agency ordinarily applied these rates in calculating eligible prices, since they were the rates actually charged—and financed by MSA—for the company fleet tankers which carry the great bulk of crude oil from the Middle East to Europe. If these rates had been used by the companies in establishing their new Middle East prices, quotations at both the eastern Mediterranean and the Persian Gulf would have been several cents lower. (See attached table IV.) A reduction in the "London award" rate is, however, likely to take place within the next few months, bringing the award freight rate and present prices more nearly into line.

After a period of confusion, posted prices for 36° API gravity crude have apparently settled down to an increase of 10 cents at the eastern Mediterranean pipeline terminals, 17 cents at Fao, Iraq, at the head of the Persian Gulf, 22 cents at Kuwait and Ras Tanura, Saudi Arabia, and 25 cents for the small quantities of high quality crude which are shipped from the Sheikdom of Qatar. The Fao price (set by Socony) apparently allows a 5-cent freight differential in favor of Ras Tanura. The Kuwait price probably comprises a similar freight differential, plus a quality discount due to the low gravity and high sulfur content of this crude, while the 3-cent premium for Qatar crude undoubtedly takes into account the high quality of this oil.

The weighted average increase in the price of Middle East sterling, franc, and dollar crude oil shipped to Europe is now estimated at 17⅓ cents per barrel instead of 25 cents per barrel as posted by Anglo-Iranian and Gulf. This means that the total increase in the f. o. b. cost of Europe's imports of crude oil from the Middle East in fiscal 1954 is now estimated at $91 million instead of $131 million. Because of the smaller price increase at the eastern Mediterranean pipeline terminals and the fact that the American companies own more pipeline capacity than the British, the average increase in the price of American company oil is 16 cents per barrel compared to 19 cents for British oil.

Before the price increases, MSA/FOA had estimated that American company exports to Europe (excluding in-bond refining) would average 468,000 barrels per day, of which 272,000 barrels per day would be sold for dollars, 147,000 barrels per day would be sold to the United Kingdom for sterling, and 49,000 barrels per day to other countries for soft currencies, including sterling. The statement presented on July 15 contained an estimate that the cost of the 272,000 barrels per day to be sold for dollars would increase by $25 million. In addition, the agency assumed that the increase in the cost of the 49,000 barrels per day to be sold to countries other than the United Kingdom for local currencies ($5 million) might have to be paid in dollars, because the companies could not increase their European purchases sufficiently to absorb the increase in local currencies.

FOA now estimates that the dollar cost of the 272,000 barrels per day to be sold for dollars will increase by $15 million, instead of $25 million. The dollar equivalent of the increase in the cost of the remaining 196,000 barrels per day to be sold for sterling to the United Kingdom and for various local nondollar currencies to continental countries will be $13 million. This portion of the increase will probably be paid in a mixture of dollars and local currencies. The increase in the dollar cost of American company crude oil will thus range from $15 million to $28 million. If the prices posted by Anglo-Iranian and Gulf had lasted, the increase would have ranged from $25 million to $44 million.

The agency's July 15 estimates as to the increased cost of imported petroleum products remain unchanged, at a total of $39 million in all currencies. The increased cost of products sold for dollars is estimated to range from $12 million to $14 million, with the balance payable in other currencies.

Thus, the recent price increases on crude oil and petroleum products have resulted in raising Europe's import bill for these items by the equivalent of $139 million in all currencies. MSA/FOA estimates that the increase in dollar cost will be between $30 million and $45 million, depending upon the ability of the American companies to accept payment in nondollar currencies. Tables V and VI show the breakdown of these crude and produce cost increases.

TABLE I.—*Company announcements of posted export prices of Middle East crude oils, July 1953*

[Dollars per barrel for 36° API crude oil]

	Date price change announced	Effective date of price change	New prices quoted				
			East Mediterranean pipeline terminals	Persian Gulf			
				Arabia	Qatar	Kuwait	Fao, Iraq
Original announcements:							
Gulf Oil Corp	July 8	July 10	------	------	------	1.85	------
Anglo-Iranian	July 14	July 16	2.54	------	------	1.85	2.00
Standard Oil Co. (New Jersey)	July 16	July 17	2.39	2.00	------	------	------
California-Texas	do	July 21	2.44	1.97	------	------	------
Shell	July 20	July 20	2.44	------	2.05	1.85	2.00
Compagnie Francaise des Petroles	do	do	2.44	------	------	------	2.00
Socony-Vacuum	July 23	July 24	2.39	1.97	2.00	1.85	1.92
Subsequent revisions:							
California-Texas	July 24	do	2.39	------	------	------	------
Standard Oil Co. (New Jersey)	July 27	July 27	------	1.97	------	------	1.92
Anglo-Iranian	July 28	July 16	[1] 2.39	------	2.00	1.82	1.92
Shell	July 29	July 20	2.39	------	2.00	1.82	1.92
Gulf	July 31	July 16	------	------	------	1.82	------
Socony-Vacuum	Aug. 3	July 24	------	------	------	1.82	------
Compagnie Francaise des Petroles	Aug. 10	July 20	2.39	------	2.00	------	1.92

[1] Reduced in 2 steps: 1st reduction to $2.44 announced July 23.

TABLE II.—*Analysis of Esso Middle East crude-oil prices, July 1953*

[Per barrel prices for 36° API gravity]

Items in price	Price	Cumulative totals
(1) F. o. b. Ras Tanura price for Arabian crude oil prior to increase.	$1.75	
(2) Increase July 17, 1953, following gulf and Anglo-Iranian in Persian Gulf, and also United States increase.	+.25	$2 f. o. b. Ras Tanura price, July 17, 1953.
(3) Freight, Ras Tanura to United Kingdom, at spot market voyage cost of USMC −51.5 percent.	+.742	$2.74 United Kingdom delivered price.
(4) Freight, Sidon to United Kingdom, at spot market voyage cost of USMC −51.5 percent.	−.353	
(5) F. o. b. Sidon price for Arabian crude	2.39	

TABLE III.—*Analysis of Caltex Middle East crude-oil prices, July 1953*

[Per barrel prices for 36° API gravity]

Items in price	Price	Cumulative totals
(1) Posted price for West Texas (sour) crude oil (as published in National Petroleum News).	$2.69	
(2) Quality differential with Arabian crude	−.04	$2.65 wellhead price for comparable Texas crude.
(3) Charges to United States gulf port (ICC rates for gathering, pipeline, evaporation allowance, and terminal loading, plus 1 cent marketing charge).	+.31	$2.96 f. o. b. United States gulf price for comparable Texas crude.
(4) Freight, United States gulf to New York, at voyage cost of USMC −37 percent for 5-year time charter.	+.24	$3.20 New York delivered price for comparable Texas crude.
(5) United States import excise tax and freight, Sidon to New York, at voyage cost of USMC −37 percent for 5-year time charter.	−.105 −.656	$2.44 f. o. b. Sidon price for Arabian crude.
(6) Freight, Sidon to United Kingdom, at voyage cost of USMC −37 percent for 5-year time charter.	+.458	$2.90 United Kingdom delivered price for Arabian crude.
(7) Freight, Ras Tanura to United Kingdom, at voyage cost of USMC −37 percent for 5-year time charter.	−.927	
(8) F. o. b. Ras Tanura price for Arabian crude	1.97	

TABLE IV.—*Relationship of delivered prices for crude oil in the United States and Europe*

[Dollars per barrel for 36° API crude of comparable quality]

Source	F. o. b. price	Delivered prices [1] to United States east coast at freight cost [2] of—			Delivered prices to United Kingdom at freight cost [2] of—		
		−51.5	−37	−19	−51.5	−37	−19
Texas	2.96	3.14	3.20	3.27			
Venezuela	2.86	3.14	3.20	3.27			
Eastern Mediterranean	[3] 2.44	3.05	3.20	3.39	2.79	2.90	3.03
Persian Gulf	[3] 1.97	2.94	3.15	3.42	2.71	2.90	3.13
Eastern Mediterranean	[4] 2.39	3.00	3.15	3.34	2.74	2.85	2.98
Persian Gulf	[4] 2.00	2.96	3.18	3.45	2.74	2.93	3.16

[1] Includes 10.5 cents per barrel United States import duty.
[2] Freight cost of −51.5, −37, or −19 refers to discount of 51.5, 37, or 19 percent on United States Maritime Commission World War II controlled rates; e. g., if USMC rate = $10 per ton, at USMC −51.5 percent, freight cost is 48.5 percent of USMC rate, or $4.85 per ton.
[3] Caltex.
[4] Esso.

TABLE V.—*Increased cost of crude oil and petroleum product imports of OEEC countries following the price increases, June–July 1953, fiscal 1954*

[Millions of dollars, f. o. b.]

	American Co. oil				Other imports	Total imports [1]
		Shipments to—				
	Payable in dollars	United Kingdom, payable in sterling	Other countries, payable in nondollars	Total		
Middle East crude:						
Original estimate	209.4	103.3	38.5	351.2	676.4	1,027.6
Increased cost	15.2	10.2	2.6	28.0	63.0	91.0
Revised estimate	224.6	113.5	41.1	379.2	739.4	1,118.6
Western Hemisphere crude:						
Original estimate	28.2			28.2	58.6	86.8
Increased cost	3.1			3.1	6.4	9.5
Revised estimate	31.3			31.3	65.0	96.3
Refined products:						
Original estimate	205.3	30.0		235.3	367.5	602.8
Increased cost	12.0	1.8		13.8	24.7	38.5
Revised estimate	217.3	31.8		249.1	392.2	641.3
Total crude and products:						
Original estimate	442.9	133.3	38.5	614.7	1,102.5	1,717.2
Increased cost	30.3	12.0	2.6	44.9	94.1	139.0
Revised estimate	473.2	145.3	41.1	659.6	1,196.6	1,856.2

[1] Crude-oil imports exclude oil processed in European refineries on foreign account. Refined product imports include products refined from this crude oil and marketed within the OEEC countries.

TABLE VI.—*Increased cost of petroleum products to the European consumer, fiscal year 1954*

	Total increases,[1] June 15–30, 1953		
	Cents per gallon	Dollars per barrel	Dollars per metric ton
Aviation gasoline	1.000	0.42	3.78
Motor gasoline	.500	.21	1.79
Kerosene	.500	.21	1.63
Gas/diesel oil	.625	.26¼	1.96
Residual fuel oil	.595	.25	1.67
Weighted average [2]	.548	.23	1.70

	Quantity		Increased cost, million dollars
	Thousand barrels per day	Thousand tons	
Product imports	377	18,875	38.5
Locally refined for domestic consumption	1,090	53,041	83.8
Total consumption	1,467	71,916	122.3

[1] Low of Platt's quotations at United States gulf ports.
[2] Weighted by pattern of European consumption.

Mr. HALE. General Johnson?

STATEMENTS OF BRIG. GEN. A. H. JOHNSON, CHIEF OF THE OFFICE OF PETROLEUM PROGRAM OF THE OFFICE OF THE SECRETARY OF DEFENSE; AND COL. DOUGLAS R. BROWN, ARMED SERVICES PETROLEUM PURCHASING AGENCY, WASHINGTON, D. C.

Mr. HALE. General Johnson, we are pleased to have you before the committee and are very interested to hear your testimony.

General JOHNSON. Mr. Chairman, we are very delighted to appear here. I am accompanied by Colonel Brown, who is the executive officer of the Armed Services Petroleum Purchasing Agency, who will be able to go into the details of our purchasing policy and procedures to the extent that you desire. I should like to start with just a brief overall statement regarding the questions propounded to the Secretary of Defense.

The price increases recently announced in petroleum products and crude oil will increase the cost to the Department of Defense of the products we are buying in fiscal year 1954. In fiscal year 1954 we anticipate taking delivery from industry of 200 million barrels of petroleum products, slightly in excess of 200 million. We anticipate that that will cost the Department of Defense, and the Government, approximately a billion dollars. That makes up a little over 2 percent of the national expenditures for defense by the Department of Defense. It will give you some idea of the extent of our interest in petroleum. Those products are purchased generally in the United States, some in the Caribbean area, and some in the Persian Gulf area.

Part of the purchases for fiscal year 1954 were negotiated and contracts entered into prior to the announced raises. So there are portions of our petroleum requirements which were not affected by the recently announced price increases. Other purchases to complete our requirements for fiscal year 1954 will not be made until the latter part of this calendar year and will not be completed until some time early in calendar year 1954.

The increased cost on those products which we have not purchased or which we have not gone out to industry to fill, of course are relatively nebulous. We don't know whether there will be further increases or decreases in those products.

However, we have made estimates of the amount of increased cost to the Department of Defense, based on the facts that we have at the present time. A question was asked as to the indirect cost to the Department of Defense of the petroleum price increases. I am sure you realize that that is a rather nebulous factor to arrive at at any given instant on short notice. However, there is a petroleum cost in all steel, automobiles, transportation, even food, that the Department of Defense purchases.

We believe that probably the petroleum for the Department of Defense bears some relation to the share that petroleum has in our own national economy.

That indirect cost will be small. It will be not nearly as much as the direct cost increase. It will probably be a small fraction of 1 percent at the most. Those are general answers to the questions posed by the committee. Col. Douglas Brown can discuss the details of

specific price increase aspects as far as our direct purchases are concerned.

Mr. HALE. Does Colonel Brown wish to make a statement at this time?

Colonel BROWN. Mr. Chairman, it was a little difficult to arrive at an accurate figure as to cost as a result of part of our procurement having already been completed. Many contracts, as you know, are on a escalated basis, which had to be adjusted due to the increase of crude cost; also we had to make estimates for the last 6 months' procurement as to just how much those costs would go up as a result of the increased crudes.

We arrived at an estimated cost to the military for the fiscal year of 1954 of approximately $50 million. That would represent approximately 5 percent of the estimated cost of our procurement program for 1954.

I have those costs broken down by product and by area, which I would be glad to give as a matter of record, or I will be glad to read to the committee if you so desire.

I would like to further state that we have made a couple of assumptions in order to arrive at these figures. We assumed that this price increase would, of course, continue for the rest of the fiscal year, and that requirements of the military would remain as they are now, that they would not be modified.

Mr. PELLY. Mr. Chairman, could I ask a question? The general said $4 billion and you said $50 million.

General JOHNSON. One billion is the total amount that we expect to spend for petroleum.

Mr. PELLY. Thank you.

Mr. HALE. Does that conclude your statement?

Colonel BROWN. Yes, sir; that is the statement.

Mr. HALE. Are there any questions of Colonel Brown or of General Johnson?

Mr. Heselton.

Mr. HESELTON. I think this may be answered by either of the witnesses. The rate of your purchases are about a billion dollars a year. What would be the effect of the increase if you had not already secured some of this under contract?

Colonel BROWN. Mr. Heselton, if I understand your question correctly, you are thinking about the last half procurement, the effect it will have on that. Sir, I have included that in my $50 million estimate. In other words, we had to estimate or more or less predict that the prices would remain about the way they looked now as a result of this crude increase. In other words, it is going to affect the delivered cost of our product, of the finished product.

Mr. HESELTON. It seems likely that the full impact on the defense program, if the increases stand, would not be realized until fiscal 1955.

General JOHNSON. Until the last half of fiscal year 1954 and 1955, the full impact. The same applies to the indirect costs where the cost to the manufacturer of tanks, battleships, aircraft, and so forth, who have elements of petroleum cost in their production, those costs will not all be passed on to us this fiscal year, naturally, but it will be later on.

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Mr. HESELTON. I take it you are testifying as to the overall defense program?

Colonel BROWN. Yes, sir.

Mr. HESELTON. The Army, Navy, Air Corps, and Marine Corps?

Colonel BROWN. Yes, sir. I might explain that the Armed Services Petroleum Purchasing Agency, of which I am the active head, procures all petroleum.

Mr. HARRIS. Who does?

Colonel BROWN. The Armed Services Petroleum Purchasing Agency. We arrange for its inspection and for its shipment in all parts of the world.

Mr. HESELTON. Does the Armed Services Purchasing Agency purchase crude oil?

Colonel BROWN. No, sir; we do not purchase crude oil, only finished products.

Mr. HESELTON. You buy just the product?

Colonel BROWN. That is right.

Mr. HESELTON. Are your purchases of the product in the United States in contrast to other parts of the world substantially? Are the purchases substantial here in the United States with reference to the overall world purchases?

Colonel BROWN. Actually, most of our purchases are in the United States. We have very few outside the United States.

Mr. HESELTON. I take it you participate in purchases on the gulf coast, the east coast and the west coast?

Colonel BROWN. That is right, sir.

Mr. HESELTON. Has the tanker rate substantially affected the situation?

Colonel BROWN. No, sir. Of course we use MSTS, military sea transport service to transport our products as a general rule. It follows pretty close with commercial practice of rates, with the exception the military pays maritime minus 25 percent.

Mr. HESELTON. Then in conclusion, I believe we will have a bill up this afternoon, and I notice some reference to the petroleum curtailment for the Ryukyus, is it?

General JOHNSON. Ryukyu Islands? That is Okinawa.

Mr. HESELTON. Is that considered a part of the defense program to which you are testifying, or is it separate?

Colonel BROWN. Sir, only insofar as shipping products to Okinawa and for supply of the military services.

Mr. HESELTON. You have not considered it important, I take it, to submit any supplemental requests as the result of this recent increase?

Colonel BROWN. No, sir.

Mr. HESELTON. That is all.

Mr. HALE. Mr. Younger?

Mr. YOUNGER. On your contracts, you mentioned that some of them are on an escalator clause, Colonel.

Colonel BROWN. Yes, sir.

Mr. YOUNGER. What percentage of your existing contracts that you have made for the first half of fiscal 1954 are on an escalator contract?

Colonel BROWN. Mr. Younger, actually we have several different types. I might explain it to you. We have regional type contracts which cover the purchases for delivery from a jobber, or small opera-

tor, direct to a camp or station or activity. In those regional contracts, about 70 percent of them are escalator-type contracts. Of course again we get into different types of contracts of escalation. You have a maximum type in which you have a firm price that will escalate downward in favor of Government in case of a decrease of prices in crudes, you have a ceiling-type contract in which the price could go up as high as 10 percent in case of crude increases, and then you have a firm-type contract. Those three types are on a regional basis.

Now, insofar as your bulk procurement is concerned for terminals and direct shipment by the services to bases from terminals and for shipment overseas—for instance high-octane fuels and jet fuels—you have escalator-type contracts that are somewhat similar to those in regional. The quantity of escalated contracts in that area are much greater because it is difficult to secure that product without escalator contracts.

It is also difficult to buy, because most of those contracts are negotiated and you are interested in trying to get product near the location of your using activity or your terminal. So it is a rather complex matter in the fact that you have to have so many different types of contracts and different types of buying to do. Actually, I would say offhand, as a rough guess, that it might average out 50 percent of our business, probably, which would be escalation.

Mr. YOUNGER. So that actually 50 percent of the increase will show up in the first 6 months of 1954, so that you will have roughly 75 percent of your business in fiscal 1954 which will show the result of the increased prices?

Colonel BROWN. I think approximately so.

Mr. YOUNGER. Where do most of your supplies of petroleum products come from that are shipped to Korea?

Colonel BROWN. Most of that actually is supplied from Bahrein, through the Cal-Tex contract which we have over there.

Mr. THORNBERRY. From where?

Colonel BROWN. From Bahrein, the Persian Gulf area.

Mr. YOUNGER. You said most of it. Could you give that in percentage?

General JOHNSON. About 60 percent.

Mr. YOUNGER. And the other 40 comes from where?

Colonel BROWN. From the United States, either the west coast or gulf coast.

Mr. YOUNGER. How much comes from California?

General JOHNSON. Ten percent.

Colonel BROWN. Actually very little from the west coast.

Mr. YOUNGER. Only about 10 percent from California?

Colonel BROWN. Yes.

Mr. HESELTON. Will the gentleman yield on that?

Mr. YOUNGER. Yes.

Mr. HESELTON. I thought you said to me the bulk of your procurement was in the United States.

Colonel BROWN. That is correct, sir. But he asked about Korea, and I said that the bulk of the shipments to Korea came from the Persian Gulf.

Mr. YOUNGER. That leads me to ask you this question, if I may: I suppose in terms of the disposition of our forces, particularly the

Navy, that some arrangement is probably made in terms of procurement close by where they are stationed. In other words, if they were in the Mediterranean it would be economical to buy whatever they need in that area rather than have it shipped over from here; is that a fact?

Colonel BROWN. Yes; there is quite a bit purchased in that respect.

Mr. HALE. Mr. Pelly.

Mr. PELLY. Colonel, in our purchases in Europe, do we buy from their own refineries over there?

Colonel BROWN. No, sir, Mr. Pelly, we do not.

We ship our product to Europe. We do have some into-plane service contracts and some of that product might be furnished from European sources.

Mr. PELLY. In other words, if there were price increases over there, it might affect us a little?

Colonel BROWN. Actually the effect would come from the gulf coast increases and on Aruba, because the postings of Aruba would affect into-plane servicing contracts. It is based on that.

Mr. PELLY. Is the situation such that in your purchases, for example the 60 percent for Korea that you would buy in the Persian Gulf, is that situation such that there is really no competitive feature in calling for a bid?

Colonel BROWN. Actually, whether or not it is competitive is not the question. We have saved $75 million by buying it over there because it is cheaper.

Mr. PELLY. What I am getting at, though, is, is there a competitive feature in your procurement program? Do you feel that there are enough sources available, so that there is competition?

Colonel BROWN. Very definitely. It is a very soft market. In fact, the competition is extremely keen there.

Mr. HALE. Mr. Harris?

Mr. HARRIS. Did you say you saved $75 million by purchasing the petroleum product that you needed in Korea in the Persian Gulf area?

Colonel BROWN. That is right, Mr. Harris.

Mr. HARRIS. $75 million a year?

Colonel BROWN. No, sir; that is over the period since the Korean war, sir.

Mr. HARRIS. Pardon?

Colonel BROWN. That is over the period since the Korean war.

Mr. HARRIS. Do you make that saving on transportation or do you make it on the price of product itself?

Colonel BROWN. Both. The price is very definitely lower.

Mr. HARRIS. In other words, you can get cheaper products in the Persian Gulf than you can at United States prices?

Colonel BROWN. That is right.

Mr. HARRIS. The armed services purchasing agency——

Colonel BROWN. Petroleum Purchasing Agency.

Mr. HARRIS. Who is that composed of? I do not mean by men, names.

Colonel BROWN. I understand. It is made up, actually, of representatives from the three departments, headed by an executive officer who is rotated every 2 years. It is equally represented insofar as officer personnel is concerned by the three departments.

Mr. HARRIS. That is the Army, Air Force and Navy?

Colonel BROWN. That is correct, sir.

Mr. HARRIS. When you have need for a product, do you endeavor to obtain it through bids or negotiated contract?

Colonel BROWN. We use both, Mr. Harris. Actually, we go out on advertised bids for regional contracts and on products which are normally in soft supply. Those products that are difficult to buy, such as high-octane fuels and jet fuels are usually negotiated contracts. We use both methods; depending on the best interests of the Government, which is considered in going out. We go out for offers from all the companies. We make direct contacts with industry for this purpose.

Mr. HARRIS. You go out for offers from all companies who might be able to supply you?

Colonel BROWN. Yes, sir; that is correct. And any company that wishes to be on the list of bidders are sent a request for bid.

Mr. HARRIS. When you do that, do you get variation of bids?

Colonel BROWN. Yes, there is quite some variation.

Mr. HARRIS. Is it quite a competitive situation?

Colonel BROWN. I would say that it is highly competitive.

Mr. HESELTON. Will the gentleman yield for one question?

Mr. HARRIS. Just one moment. May I continue for just a moment? Then in view of the fact that your requirements are rather heavy over a period of time, I assume you negotiate or else through bids have rather sizable contracts, do you not?

Colonel BROWN. Very large-sized ones.

Mr. HARRIS. Do these companies who bid have a variance of as much as several percent, one over the other?

Colonel BROWN. It is a question, actually, of, again the type of product that you are going out for and depends entirely on whether or not you are in a soft market or a hard market on that product.

For instance, let's take motor gasoline which is considered soft at the time, to a certain extent. The bids that come in for motor gasoline might be close in nature but would have variance in the type of contract offer. For instance, again, as I stated, you may get an escalation in which the price could go down if crudes went down. Others are firm, and others demand a ceiling, which means if the crudes go up, it would influence your program about 10 percent on the gallon.

Mr. HARRIS. Then there might be as much as several million dollars involved in one purchase, might there not?

Colonel BROWN. Very definitely.

Mr. HARRIS. In fact, there could very well be a saving of several million dollars in any one negotiated contract over what you might get it from another company?

Colonel BROWN. That is right. Therein lies the real job of buying, of reviewing and analyzing.

Mr. HARRIS. Then this estimate of $50 million is purely an estimate depending upon the type of contract you are able to negotiate, is it not?

Colonel BROWN. No, Mr. Harris, not necessarily. The estimate is based on certain facts which we gain from experience in dealing with this type of purchase. The purchasing people in the agency have had 10 to 20 years of experience. They know the markets and they are able to predict them fairly close.

We are basing these estimates on what we have experienced for the first 6 months' period and those costs that were brought about due to escalation which we know are factual. We are able to draw those off almost to the dollar. We are estimating the last half on the basis of those price increases which we are experiencing right now, on high octane and jet fuels, for instance. So the guess, as you say, might be a rough guess, but actually it is a fairly accurate estimate. It could have some variation but not too much.

Mr. HARRIS. I yield to Mr. Heselton.

Mr. HESELTON. Colonel, since you mentioned gasoline, upon the assumption that there is a considerable amount of gasoline purchased and used by the armed services in what we think of as noncombat areas, that is passenger vehicles, the elaborate trucks we see coming up with no people, or one person, I wonder what the specifications are. We have had testimony I believe yesterday, as to the quality of the so-called unbranded gasoline equaling that of the brand names. What are the specifications for that type of gasoline that are currently in use?

Colonel BROWN. Sir, there are two types. In Korea they demand a higher grade of fuel. It is an 80 octane. For normal use by the military it is a 72 octane. It is actually a lower grade than you use in your car.

Mr. HESELTON. A what?

Colonel BROWN. Seventy-two octane.

Mr. HESELTON. Is that a premium?

Colonel BROWN. No, sir. That is lower than the regular gas you would buy in a gasoline pump for use in your own automobile.

Mr. HARRIS. Well, regular gas has an octane of about 80, does it not?

Colonel BROWN. It runs between 80 and 82.

Mr. HARRIS. So you get 72, that is almost to what we used to call casing head.

Colonel BROWN. You used to run that in your Ford in the old days, about 60.

Mr. HARRIS. Yes. We used to go out in the fields and get it out of pipes. The general economy has expanded a great deal in the last few years, has it not, General?

General JOHNSON. Yes, sir.

Mr. HARRIS. Any time that the price of any product, which is of great importance to the military, is adjusted or goes up or goes down, then it affects the cost of the operation to that extent.

General JOHNSON. Yes.

Mr. HARRIS. Let me ask you this: The military does use a lot of steel, does it not?

General JOHNSON. Indirectly.

Mr. HARRIS. Indirectly?

General JOHNSON. Well, in the building of tanks and ammunition.

Mr. HARRIS. I thought it went directly into tanks and battleships and such.

General JOHNSON. The manufacturers use the steel to produce the product that we require.

Mr. HARRIS. Due to the fact that there were certain adjustments in the economic situation in the steel industry, not so long ago there was

a $4 a ton increase in the cost of steel. Did that reflect a higher cost of tanks and steel that goes into our battleships?

General JOHNSON. Sir, I think you better direct that question to some other representative of the Department of Defense. I deal only in petroleum. I would only have an opinion, sir.

Mr. HARRIS. The average individual would understand that the price of the product goes up, it is going to affect the cost.

General JOHNSON. I am sure it did.

Mr. HARRIS. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Hale?

Mr. HALE. Is it the practice of the Department of Defense to have long-term contracts with any company?

In what quantity do you buy?

Colonel BROWN. Mr. Hale, we naturally have to stay within the limitations of the fiscal year on procurement. We have only one long-term contract and that was the Cal-Tex contract under which we are buying at the savings I indicated a while ago for delivery from the Persian Gulf. It is the only one that has ever been approved. In fact, when this one runs out, I understand we are not going to be able to renew it under appropriations for any longer than a year in the future. So, actually, for all intents and purposes, we do not contract beyond a fiscal year.

Mr. HALE. That contract that you speak of is one under which you buy for Korea?

Colonel BROWN. Yes, sir.

Mr. HALE. Is that the only long-term contract you have?

Colonel BROWN. That is the only long-term contract we ever have had, yes, sir.

Mr. HALE. How many purchases of petroleum products do you make in a year; how many separate purchases?

Colonel BROWN. It would be a pretty rough estimate, because you go from a small——

Mr. HALE. Do you buy gasoline, for example, every day?

Colonel BROWN. We are buying it continuously all year, but the contracts will vary from a thousand dollars on up to several million dollars, sir. It depends on the type of product. For instance, if you are dealing with regional products, you may do business with a small jobber who is only serving one activity with motor gasoline.

Mr. HALE. For example, do you make one purchase for an airfield, say, in San Antonio, and another purchase for trucks at Quantico, and so on?

Colonel BROWN. It would all depend. If it is aviation gasoline, you may have one source, one refiner, supplying several of those using activities, depending upon the transport cost. That is for the aviation phase of it. For the motor gasoline, and kerosene, and heating oils, that may be bought from a local distributor or jobber, which could be delivered cheaper than you could buy it from a large refiner, due to the small amounts required.

Mr. HALE. Even when you buy small amounts, do you solicit bids from various companies?

Colonel BROWN. Yes, sir; it has to be on an advertised-bid basis.

Mr. HALE. And you do in fact, as I understand the testimony, find fairly wide variances between various companies?

Colonel BROWN. Yes, sir; depending upon location, type of delivery expected. There are so many factors involved. Usually there is quite a little bit of variation in them.

Mr. HALE. One day you can buy better from Shell and another day you can buy better from Esso, and so on?

Colonel BROWN. Yes, sir; that is correct.

Mr. HALE. That is all, Mr. Chairman.

The CHAIRMAN. Mr. Springer?

Mr. SPRINGER. Colonel, when you are purchasing in the Persian Gulf, are you purchasing there from the American corporations or are you purchasing from a foreign corporation?

Colonel BROWN. It is actually American controlled, sir. The Cal-Tex is the California-Texas Oil.

Mr. SPRINGER. Do you make any purchases from foreign governments?

Colonel BROWN. No, sir; we do not.

Mr. SPRINGER. All is purchased from either domestic companies or domestically owned companies?

Colonel BROWN. That is correct.

Mr. SPRINGER. You stated that it is very highly competitive in the Persian Gulf and you have a soft market, relatively speaking. Do you find it is as highly competitive there as it is here in the United States?

Colonel BROWN. Mr. Springer, I think you have a little bit different type of condition because there we have only had this one requirement, so we have only had to deal at one time in the Persian Gulf. In the United States, it is a constant thing. In other words, every 6 months we go out for procurement. The difference in competition is hard to measure. I would say that it would probably be just about as great one place as it would the other, if we had the same buying program in the Persian Gulf. It is hard to measure.

Mr. SPRINGER. What is the connection of your agency with the Defense Petroleum Administration?

Colonel BROWN. The Defense Petroleum——

General JOHNSON. I will answer that question, sir. The Petroleum Administration for Defense is the national agency governing petroleum operations. The Department of Defense deals with the Petroleum Administration on all its petroleum requirements and programs and planning for future emergencies.

Mr. SPRINGER. General, I think this is your question: Have you made an estimate of how long, in the case of an outbreak of a full-scale war, that you are going to depend on the Middle East fields?

General JOHNSON. Sir, I don't believe I had better answer that.

Mr. SPRINGER. You do not have an opinion?

General JOHNSON. I would like to refer it to the Secretary of Defense if the committee requires an answer to that.

Mr. SPRINGER. Is that classified?

General JOHNSON. Yes, sir.

Mr. SPRINGER. Has that become classified within the last year and a half?

General JOHNSON. No, sir.

Mr. SPRINGER. How long has that been classified?

General JOHNSON. Sir, I don't know when it was classified.

Mr. SPRINGER. I believe that is all.

The CHAIRMAN. Any further questions, gentlemen? If not, we are very appreciative of the attendance of you gentlemen here this morning to assist us in this matter. We thank you for the information you have given us.

The committee is adjourned until tomorrow morning at 10 o'clock, at which time we will expect to have as a witness Russell B. Brown, general counsel of the Independent Petroleum Association of America.

(Whereupon, at 12:03 p. m., the committee was recessed until 10 a. m., Thursday, July 16, 1953.)

PETROLEUM STUDY
(Gasoline and Oil Price Increases)

THURSDAY, JULY 16, 1953

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D. C.

The committee met at 10:45 a. m., pursuant to recess, in room 1334, House House Building, Hon. Charles A. Wolverton, chairman of the committee, presiding.

The CHAIRMAN. The committee will come to order.

I apologize for the lateness of our convening due to the fact that we had several matters of important character that had to be decided this morning. It necessitated, therefore, that we delay the hearing. Our witness this morning is Mr. Russell Brown, general counsel of the Independent Petroleum Association of America.

Mr. Brown, you may proceed.

STATEMENT OF RUSSELL B. BROWN, ESQ., GENERAL COUNSEL, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA

Mr. BROWN. My name is Russell B. Brown. I appear here as general counsel and representative of the Independent Petroleum Association of America, a national trade association of oil and gas producers with membership in all of the oil-producing areas of the United States. The primary interest of the membership is in domestic production of crude petroleum and natural gas. My testimony, therefore, will be directed to the subject of crude-oil prices and the factors involved in the recent increase in these prices.

We are glad to participate in the study by this committee. These hearings provide an open forum where the actions and problems of an industry can be discussed fully. It is fortunate to have such a forum. I believe that the petroleum industry should welcome this opportunity to present the facts as to oil prices. The committee and the public are entitled to those facts.

Much information on crude-oil prices has already been presented to the committee. In this connection, I want to emphasize that crude-oil prices are established in response to industrywide economic forces. The conditions as to individual companies at any given time may vary widely and not be representative of the industry. There are 15,000 to 20,000 separate companies, partnerships, and individual units engaged in the domestic oil producing industry. Some are large integrated concerns engaged in all branches of the industry. Most are smaller operators, engaged only in the production branch, who are responsible for 75 to 80 percent of the drilling in the search for, and development of, additional oil resources. It is important, therefore,

that the study and conclusions of this committee be based on the experience and situation as to the petroleum-producing industry as a whole.

Before beginning my testimony on price increases, I should like to say that such testimony as you may have received which concludes that State and Federal conservation laws are manipulated to fix prices is erroneous and untrue. The conservation laws pertaining to oil have made it possible for the thousands of small operators to compete in the production of oil. They have avoided monopoly in the domestic production of oil. They have avoided waste and have brought to the consumers of oil in the United States a continually increasing supply of oil at reasonable prices. Such testimony assumes a degree of dishonesty in the public service of hundreds of elected and appointed public officials that does not exist. I do not believe it possible for such to exist. Such testimony tends to discredit an industry and State and Federal officials.

The recent 25-cent increase in crude-oil prices was the first in 5½ years. No other basic industry has been in this position. The crude-oil industry has not contributed one cent to the inflation that has taken place during that period of time.

The crude-oil price increase was not only necessary, but long overdue. During the past 3 years in particular, the economic position of the oil producer as to price has suffered. Starting in June 1950, unusually large demands for oil, steadily increasing costs, the impact of inflation and the defense needs of the Nation growing out of the Korean war unquestionably called for an upward adjustment in crude-oil prices. This normal and necessary adjustment was denied by inequitable, arbitrary and, in my opinion, illegal actions of the Office of Price Stabilization.

In December 1950, the OPS singled out the oil industry to "hold the line" on prices despite the fact that the prices of other commodities were not frozen and had continued to increase. At that time, there was no threat of unreasonable increases in crude-oil prices.

Throughout the administration of price controls, the OPS failed to establish any practical procedure under which the question of overall crude oil prices could even be considered. Time after time, the IPAA attempted, without success, to obtain proper consideration of this matter by the price-control authorities. The record of these attempts is set forth in the association's price advisory committee's report, a copy of which is attached as exhibit I.

(Exhibit No. I follows:)

EXHIBIT I

WHAT PRICE OIL IN 1953

Report of the Price Advisory Committee of the Independent Petroleum Association of America, October 1952

The price of crude petroleum has been frozen without change at a level established in 1947. This price freeze was arbitrarily imposed by the Office of Price Stabilization without sound reasons and with no legal authority. The actions of OPS in ignoring the will of Congress and refusing to recognize the problems of oil production are a shameful page in the history of American constitutional government. When and if world war III strikes, the people of this Nation should know that bungling and unrealistic administration of price controls has been the real cause for any lack of sufficient oil to defend our country.

The experience of the last war should be a lessen to the Office of Price Stabilization. Apparently it is not. The OPS during that war also insisted on a rigid freeze of crude-oil prices. Despite the overwhelming evidence presented in Four Years and Forty Hearings, the OPS refused to recognize the necessity of a price adjustment to enable the petroleum industry to develop and maintain adequate productive capacity. The inevitable result is now well known. We would have been seriously short of oil had the war continued. Even in peace the effects of inadequate prices brought us to the brink of an oil shortage in 1947 and 1948. Now the new version of OPA—changed in name only to OPS—leads the country down the same destructive path toward crippling the strength of a basic and essential industry. Long steps have been taken down that path. The record speaks for itself. Before it is too late, that record should be understood and corrective action taken.

ADMINISTRATION OF PRICE CONTROLS

In the public interest, the history of price controls on crude petroleum should be made clear. The following review summarizes this history for the past 2 years.

1. *September 8, 1950.*—The Defense Production Act was passed by Congress for the primary purpose of expanding the productive capacity of essential materials. The act contemplates price controls only to prevent unreasonable price increases and specifically provides for exemption from such controls where they are unnecessary or serve to defeat the primary objective of the act.

2. *December 19, 1950.*—The OPS singled out the oil industry to "hold the line" on prices despite the fact that there was no shortage of supply, no crude-oil price increase for more than 3 years, no threat of unreasonable price increase, and no price freeze on other commodities.

3. *January 12, 1951.*—The IPAA general counsel formally protested to OPS the imposition of crude-oil price controls as being unnecessary and unjustified in view of ample supply and low prices.

4. *January 16, 1951.*—The IPAA executive committee denounced the singling out of the oil industry as unwarranted and discriminatory. The committee showed that the facts were not considered, the industry was not consulted and the Petroleum Administration for Defense was ignored. The OPS made no effort to correct their action.

5. *January 26, 1951.*—The OPS issued a general price-freezing order for all commodities despite the fact that the act provides for exemptions where price controls were unnecessary or where such controls would serve to defeat expansion of productive capacity needed for defense.

6. *May 7, 1951.*—The OPS issued a special order freezing crude-oil prices without establishing any need or justification and with no authority under the act.

7. *May 7, 1591.*—The directors of the association called upon Federal agencies concerned to correct the unfair treatment of petroleum by OPS and presented factual evidence of the existing inequity. The OPS again ignored this situation.

8. *July 26, 1951.*—Congress passed the so-called Capehart amendment to the act directing the OPS to recognize cost increases and adjust price ceilings accordingly.

9. *October 23, 1951.*—The membership of the IPAA in annual meeting requested the OPS to immediately adjust crude-oil price ceilings in order to remove disparity with the general economy and to provide the funds needed to maintain adequate oil supplies. The OPS ignored this request.

10. *December 5, 1951.*—The OPS issued Capehart amendment regulations after months of delay and vacillation as to the application of this amendment to oil. No provision, however, was included under which any consideration could be given to the crude oil price problem. Thus, after a year of arbitrary price controls, there was still no practical procedure for treating oil prices.

11. *January 3, 1952.*—The OPS, after 2 months' delay in acting on the association's request of October 23, 1951, for price relief, refused to take corrective action and admitted that they had not provided any practical method of considering crude-oil prices under the Capehart amendment.

12. *January 22, 1952.*—The executive committee of the association again requested corrective action by OPS on crude-oil prices. Again the request was ignored.

13. *February 18, 1952.*—Producers of Penn Grade crude oil filed a formal petition for price relief for that area.

14. *March 3, 1952.*—The IPAA Price Advisory Committee met in Washington, D. C., to consider what action might be taken to overcome the stalemate resulting from more than a year of stubborn disregard of the crude-oil price problem by OPS. The committee concluded that exemption of crude oil from price control was the sound solution and recommended that a formal request be made seeking decontrol.

15. *March 4, 1952.*—The IPAA filed a formal request for price decontrol, accompanied by a full and complete analysis showing that controls were unnecessary, unauthorized, and were defeating the primary objectives of the Defense Production Act.

16. *March 18, 1952.*—The OPS formally declined to act on the association's March 4 request and postponed further consideration on minor technical grounds.

17. *March 26, 1952.*—The crude-oil price problem was presented to the Petroleum Administrator for Defense showing that the OPS treatment of price controls threatened defeat of their oil-expansion program for defense. Because price has a direct and far-reaching effect on supply, the PAD was called upon to support the need for corrective price action.

18. *April 18, 1952.*—California producers filed formal application with OPS for price relief in that area.

19. *April 23, 1952.*—Officials of the IPAA held conferences with the Administrator of the Economic Stabilization Agency and the Director of OPS, both of whom exhibited a complete misunderstanding and lack of knowledge as to the crude-oil price problem.

20. *April 29, 1952.*—Again, in the long series of repeated attempts to gain recognition of the serious crude-oil price problem, the directors of the association urged the immediate removal of any and all price controls over petroleum.

21. *April 29, 1952.*—Although the Defense Production Act specifically provides for price exemptions where "necessary to promote the national defense," the Director of Price Operations of OPS publicly stated that: "OPS wants no part of that kind of responsibility."

22. *May 12, 1952.*—The IPAA general counsel presented legal and factual evidence to OPS that the law provided for price decontrol and, in fact, is required under circumstances such as exist in the case of crude oil.

23. *May 15, 1952.*—The Economic Stabilization Administration was again called upon by IPAA to consider the increasingly serious crude-oil price problem. Two months later the agency replied, as if the problem was new, that it was being "studied" and would be "given careful consideration."

24. *May 26, 1952.*—The Director of OPS, in a letter to the association, again delayed definite action on the association's longstanding request.

25. *June 5, 1952.*—Officials and members of the IPAA held a second conference with the OPS Director which revealed that he had not studied the crude-oil price problem but would undertake to do so.

26. *June 12, 1952.*—OPS referred the petitions relating to California and Penn Grade crude to PAD after a delay of 115 days and 55 days, respectively.

27. *July 9, 1952.*—The association supplemented its formal request of March 4, 1952, for decontrol. The supplement showed that recent amendments to the Defense Act proved beyond question that oil should be decontrolled because Congress intended (1) that price controls be "terminated as rapidly as possible" and (2) that prices be decontrolled where "condition of supply" would permit.

28. *July 30, 1952.*—In response to the June 12 OPS request, PAD presented its analysis and conclusions on the Penn Grade petition, recognizing that there is a shortage of Penn Grade oil in the light of emergency needs for national security; that adequate lead time is required to make additional production available; and that an increase in price could be expected to increase production.

29. *July 30, 1952.*—PAD presented its analysis and conclusions as to California prices showing beyond question the need for a price increase in the interest of national security.

30. *August 18, 1952.*—Standard Oil of California filed a formal application with OPS for an upward adjustment in price ceilings for crude oil in the west coast area.

31. *September 2, 1952.*—The PAD Administrator stated in a public address that PAD would be properly concerned with price controls when price has "a direct, immediate and far-reaching effect on supply." Despite this recognized responsibility PAD has taken no position on the overall crude oil price problem as presented to it by the association.

32. *September 10, 1952.*—The OPS formally denied the association's request of March 4 for price decontrol, after a delay of 190 days and without any indication of having obtained the official views of PAD which has the primary govern-

mental responsibility under the Defense Act as to petroleum supplies for security needs.

33. *September 16, 1952.*—The OPS formally denied the Penn Grade petition without adequate explanation, in apparent disregard of the analysis by PAD and after an unexplained delay of 211 days.

34. *September 18, 1952.*—The IPAA Price Advisory Committee met in Fort Worth, Tex., to again consider possible actions to overcome the unsound actions by OPS. The committee concluded that OPS should be called upon to reconsider its decision of September 10 and that other Government defense agencies should be called upon to insist on a proper price policy for crude oil.

35. *September 24, 1952.*—The chairman of the IPAA price advisory committee made a public statement condemning the action of OPS, in refusing to decontrol oil prices, as a threat to national security.

36. *September 24, 1952.*—The IPAA general counsel requested OPS to review its dismissal of the March 4 application.

37. *September 24, 1952.*—The IPAA general counsel also requested the Office of Defense Mobilization to consider immediate action on the matter to assure the success of the defense program as to oil. By the middle of October, the answer to these two requests had been received.

38. *September 26, 1952.*—The September 24 requests to OPS and ODM were referred to the Petroleum Administrator for Defense because of his responsibilities in connection with petroleum supplies under the defense program.

39. *October 2, 1952.*—The Director of OPS was quoted as saying that "He didn't know enough about crude oil price problem to give an opinion on request of producers for decontrol." The Director had just returned from an extended trip attempting to build up public sentiment for continuing price controls instead of concerning himself with the proper administration of controls under the law.

40. *October 6, 1952.*—The OPS referred the application of the Standard Oil of California regarding west coast prices to PAD after a delay of 49 days and without having taken any formal action on the previous application by California producers that had been pending for 171 days.

The above review summarizes the administration of price controls as to crude petroleum. It shows the stubborn and unrealistic position of OPS to date. Reference was made above to the 4 years and 40 hearings involved in oil price controls during World War II. The record of the past 2 years already contains the 40 hearings set out in this report.

PRICE-CONTROL LEGISLATION

The position of the association that there is no legal basis or economic justification of price control of commodities in ample supply to meet current needs has also been before Congress. The legislative history of the Defense Production Act shows widespread acceptance in the Congress of the principle that price controls of commodities in ample supply are not necessary or contemplated under the act and, in fact, serve to defeat the basic purpose of expanding productive facilities to meet defense-program goals.

Early in the last session of Congress, on March 11, 1952, Congressman Omar Burleson of Texas introduced a bill, H. R. 6985, providing that the price of materials should not be controlled if the supply is adequate or surplus to meet current civilian and military consumption.

On March 12, 1952, the general counsel of the association appeared before the Senate Finance Committee, and urged that the Defense Production Act be amended to provide for the decontrol of materials in ample supply.

On May 12, 1952, Congressman Rees of Kansas introduced a bill, H. R. 7807, which also embodied the same principle that materials in ample supply for current requirements should not be subject to price controls.

Again on May 13, the general counsel of the association appeared before the House Banking and currency Committee of the Congress and urged the amendment of the law along the lines of the Burleson and Rees bills.

On May 27 Congressman Talle of Iowa introduced H. R. 8010 which in substance was the same as the Burleson and Rees bills.

On May 28, there was introduced in the Senate a bill, S. 2594, by Senator Schoeppel of Kansas, providing for the immediate termination of price controls on any material in ample supply.

The Banking and Currency Committee, in June 1952, after considering the various proposals which had been submitted to it, recommended amendments to the Defense Production Act, including the Talle amendment, which embodied the principle of the above-mentioned Burleson and Rees bills.

The Talle amendment was voted on in the House on June 26, 1952, and passed by a vote of 210 to 182.

Thereafter the House-passed bill went to joint conference with the Senate. In conference during the closing days of the Congress the Talle amendment was not accepted.

Although the Burleson, Rees, Schoeppel and Talle bills, which would have made mandatory the decontrol of prices of materials in ample supply, were not included in the amendments of the Defense Production Act, the Congress did include in the bill a strong policy statement expressing the will of Congress, "* * * that the general control of wages and prices shall be terminated as rapidly as possible * * *." The Congress further directed that price controls shall be suspended where such factors as "condition of supply" will permit. This directive recognizes and embodies the principle of the Burleson, Rees, Schoeppel and Talle bills but unfortunately is not mandatory, leaving to the discretion of the President and the OPS as to when "conditions of supply" will permit decontrol.

OTHER CONTROLS AFFECTING PETROLEUM COSTS

While the OPS has maintained an inflexile freeze on crude oil prices, other prices and wages affecting petroleum costs have been permitted to increase substantially. The reports of the association's cost study committee have shown the steady increases in every element entering into the cost of finding, developing and producing crude oil. As a result of strikes in the petroleum and steel industries in 1952, increases in wages were authorized. The wage increase in the steel industry resulted in further increases in the cost of materials used by oil producers, particularly tubular goods. The regular price of these tubular goods has increased 35 to 40 percent since the last change in crude oil prices in 1947. In addition, many producers are paying twice these prices to obtain foreign pipe imported into this country and "conversion" pipe produced at abnormal costs.

This record of price and wage controls has been one of rank discrimination against the oil producing industry.

CONCLUSIONS

This committee believes that the failure, to date, to obtain proper recognition of the crude oil price problem calls for intensified efforts on the part of the oil producing industry. Such efforts were ultimately successful in overcoming the destructive influence of similar unsound policies by the OPA during World War II. The threat and the challenge is as great today. A proper price policy is vital to the continued expansion of the petroleum industry. The evidence is clear and demanding that such a proper policy requires the immediate decontrol of petroleum prices. Price controls on crude petroleum are unnecessary, discriminatory, illegal and unsound. The committee concludes, therefore, that every possible means should be employed to accomplish the decontrol of oil prices necessary for the industry to perform its normal and necessary function of supplying the essential oil needs of this Nation.

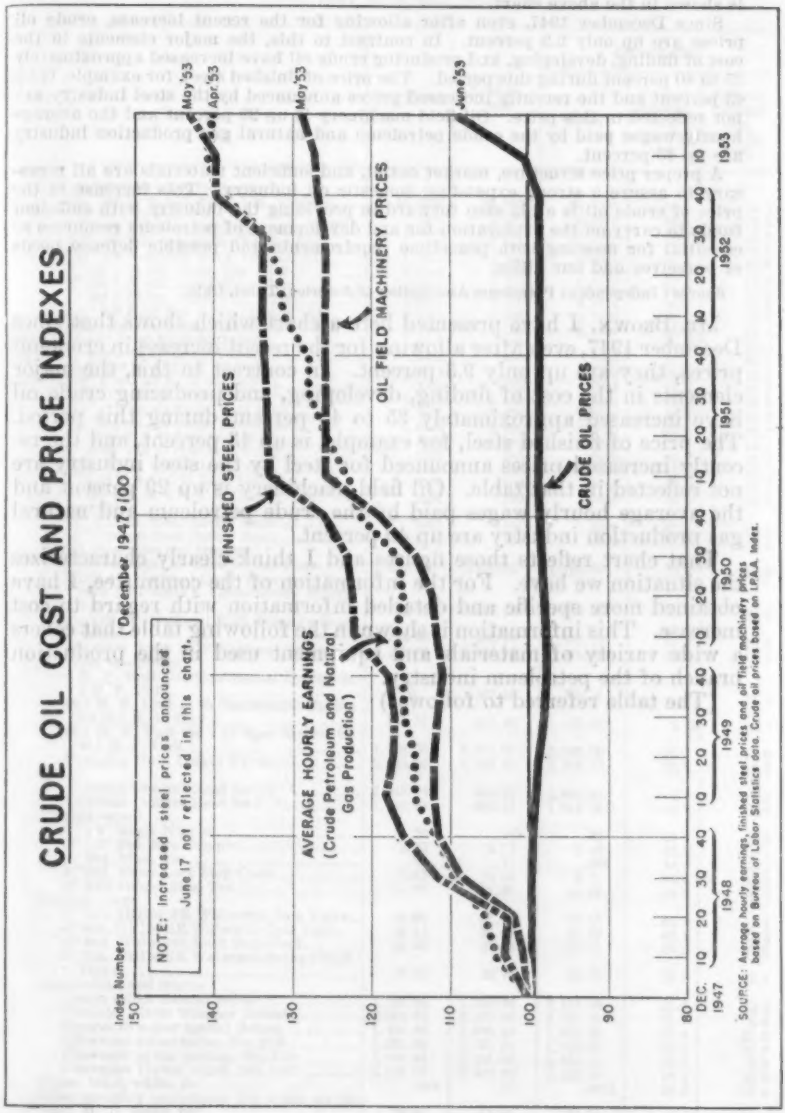
Mr. BROWN. That report shows clearly the continuing concern of the industry as to prices through 1951 and 1952. The increase of 25 cents per barrel in June 1953 was merely a delayed adjustment that properly should have been made during the period of price controls. There was nothing unusual in a price increase following the removal of these controls.

Government price controls have, by experience, proved to be particularly harmful to the small elements in the petroleum industry. As an example, the independent producers lost 10 percent of their position in domestic oil production under rigid price controls during World War II.

There is an abundance of evidence as to the steady and substantial increase in the cost of finding, developing, and producing crude petroleum since the previous increase in crude oil prices in December 1947.

The following chart presents a picture of the trends in principal elements entering into the cost of crude petroleum.

(The chart referred to follows:)


CRUDE OIL COST AND PRICE INDEXES
(December 1947=100)
NOTE: Increased steel prices announced June 17 not reflected in this chart.
Index Number
150
140
130
120
110
100
90
80
FINISHED STEEL PRICES
AVERAGE HOURLY EARNINGS (Crude Petroleum and Natural Gas Production)
OIL FIELD MACHINERY PRICES
CRUDE OIL PRICES
May '53
Apr '53
May '53
June '53
DEC. 1947
10 20 30 40
1948
10 20 30 40
1949
10 20 30 40
1950
10 20 30 40
1951
10 20 30 40
1952
10 20 30 40
1953
10
SOURCE: Average hourly earnings, finished steel prices and oil field machinery prices based on Bureau of Labor Statistics data. Crude oil prices based on I.P.A.A. index.

The first general increase in the price of crude oil since December 1947 became effective in June 1953. That this increase was both necessary and long overdue is shown in the above chart.

Since December 1947, even after allowing for the recent increase, crude oil prices are up only 9.3 percent. In contrast to this, the major elements in the cost of finding, developing, and producing crude oil have increased approximately 35 to 40 percent during this period. The price of finished steel, for example, is up 43 percent and the recently increased prices announced by the steel industry are not reflected in this price. Oil field machinery is up 29 percent and the average hourly wages paid by the crude petroleum and natural gas production industry are up 40 percent.

A proper price structure, market outlet, and sufficient materials are all necessary to assure a strong expanding domestic oil industry. This increase in the price of crude oil is a big step forward in providing the industry with sufficient funds to carry on the exploration for and development of petroleum resources so essential for meeting both peacetime requirements and possible defense needs of ourselves and our allies.

Source: Independent Petroleum Association of America, Tulsa, Okla.

Mr. BROWN. I have presented here a chart which shows that since December 1947, even after allowing for the recent increase in crude-oil prices, they are up only 9.3 percent. In contrast to this, the major elements in the cost of finding, developing, and producing crude oil have increased approximately 35 to 40 percent during this period. The price of finished steel, for example, is up 43 percent, and the recently increased prices announced for steel by the steel industry are not reflected in that table. Oil field machinery is up 29 percent and the average hourly wages paid by the crude petroleum and natural gas production industry are up 40 percent.

That chart reflects those figures and I think clearly characterizes the situation we have. For the information of the committee, I have obtained more specific and detailed information with regard to cost increase. This information is shown in the following table that covers a wide variety of materials and equipment used in the production branch of the petroleum industry.

(The table referred to follows:)

Prices of equipment and supplies used in the petroleum producing industry, 1947, 1950, and 1953

	Dec. 6, 1947	June 24, 1950	June 15, 1953		
			Price	Percent increase over Dec. 6, 1947	Percent increase over June 24, 1950
Tubular material (per foot):					
5½" 14# H-40 Std. Smls. Csg. ST&C	$0.8665	$1.0520	$1.2598	45.3	19.7
5½" 14# J-55 Std. Smls. Csg. ST&C	.8910	1.0765	1.2872	44.4	19.5
5½" 17# J-55 Std. Smls. Csg. ST&C	1.0704	1.2957	1.5090	40.9	16.4
5½" 17# J-55 Std. Smls. Csg. LT&C	1.1153	1.3503	1.5728	41.0	16.5
5½" 20# N-80 Std. Smls. Csg. LT&C	1.4046	1.6996	2.0003	42.4	19.8
7" 20# J-55 Std. Smls. Csg. ST&C	1.2695	1.5345	1.7954	41.4	17.0
7" 26# J-55 Std. Smls. Csg. ST&C	1.6283	1.9738	2.2469	38.0	13.8
7" 26# J-55 Std. Smls. Csg. LT&C	1.6965	2.0559	2.3414	38.0	13.9
8⅝" 32# H-40 Std. Smls. Casg. ST&C	2.0101	2.3861	2.7522	36.9	15.3
10¾" 40.5# J-55 std. Smls. Csg. ST&C	2.6249	3.1009	3.5482	35.2	14.4
2" 4.7# H-40 EUE SS Tubing	.3540	.4258	.5118	44.6	20.1
2" 4.7# J-55 EUE SS Tubing	.3631	.4349	.5233	44.1	20.3
2½" 6.5# H-40 EUE SS Tubing	.4712	.5706	.6900	46.4	20.9
2½" 6.5# J-55 EUE SS Tubing	.4389	.5832	.7054	45.8	21.0
3½" OD 13.30# Smls. Drill Pipe	1.0076	1.1606	1.4374	42.7	23.8
4½" OD 16.60# Smls. Drill Pipe	1.2475	1.4385	1.7839	43.0	24.0
5½" OD 24.70# Smls. Drill Pipe	1.8808	2.1649	2.6790	42.4	23.7
2" 3.75# T & C LW Line Pipe	.2332	.2810	.3356	43.9	19.4
2" 3.75# T & C CW Line Pipe	.2013	.2454	.2822	40.2	15.0
3" 7.7# T & C LW Line Pipe	.4558	.5462	.6506	42.8	19.2
3" 7.7# T & C CW Line Pipe	.4096	.5000	.5755	40.5	15.1
4" 11# LW or CW T & C Line Pipe	.6291	.7694	.8991	42.9	16.9
Sucker rods:					
¾" Carbon Steel Sucker Rods	.2465	.2940	.3380	37.1	15.0
⅞" Carbon Steel Sucker Rods	.3155	.3740	.4300	36.3	15.0
Tanks, separators and treaters:					
500 Bbl. 12 ga. Hi Bolted Steel Tank	1,292.28	1,507.36	1,736.68	34.4	15.2
3'x13' 5C National Code Type Low Pressure API-ASME Construction Separator	708.86	807.76	985.64	39.0	22.0
2½'x13' 2D National High Pressure Separator	1,143.36	1,296.64	1,507.72	31.9	16.3
6½'x27½' Type YCP National Treater	3,169.66	3,465.00	3,925.64	23.9	13.3
Pumping equipment:					
5 H. P. Unit C46 Continental Engine for 5 H. P. Unit	[1]	667.50	788.70	----------	18.2
23.1 H. P. Unit C-66 Continental Engine for 23.1 H. P. Unit	849.50	873.50	1,032.65	2.16	18.2
46.1 H. P. Unit 8½ x 10 Ajax Engine for 46.1 H. P. Unit	1,728.00	2,084.00	2,397.00	38.7	15.0
Pumping Unit, Lufkin TC-44-15	2,453.20	2,708.50	3,405.13	38.8	25.7
Heads:					
Cameron Control Head for 5½" [2]	1,048.94	963.32	1,018.20	−2.9	5.7
Cameron Control Head for 7" [2]	1,048.94	963.32	1,018.20	−2.9	5.7
Fittings—small:					
2" x 4" Black Nipples	.20	.213	.22	10.0	3.3
4" x 2" Std. Swg. Nipple	2.40	3.12	3.56	48.3	14.1
2" Std. Mall. Tee	.62	.77	.956	54.2	24.2
2" Std. Essex Lock Stop Cock	5.42	6.22	8.27	52.6	32.9
4" 300# Forged Steel Tee	15.30	17.28	23.59	54.2	36.5
Fittings—large:					
3" Std. IBBM SE Walworth Gate Valve	18.06	21.00	29.63	64.1	41.1
4" Std. ICCM SE Walworth Gate Valve	28.14	30.66	40.88	45.3	33.3
4" Std. Walworth Lock Stop Cock	24.26	27.85	37.01	52.6	32.9
4" Std. IBBM SE Walworth Swing Check Valve	25.02	22.76	30.75	22.9	35.1
Automobiles and trucks:					
Dodge 4-door custom sedan	1,791.00	1,937.50	2,174.08	21.6	12.2
Chrysler 4-door Windsor deluxe	2,050.35	2,528.50	2,701.01	31.7	6.8
Plymouth 4-door special deluxe	1,484.50	1,600.00	1,936.38	30.4	21.0
Chevrolet 4-door sedan, No. 2103	1,585.00	1,722.00	1,906.04	20.3	10.7
Chevrolet ½-ton pickup, No. 3104	1,289.40	1,434.00	1,563.45	21.3	9.0
Chevrolet 1½-ton truck, No. 6103	2,036.00	2,200.00	2,420.09	18.9	10.0
Waste: No. 1, white, lb.	.1575	.17	.2675	69.8	57.4
Other pumping equipment: 1½ inches by 16 feet, H. T. polish rod	16.95	16.25	24.60	45.1	51.4
Bits:					
4¾-inch Hughes Tricone	84.00	89.60	103.49	32.2	15.5
7⅞-inch Hughes Tricone	110.00	123.20	135.32	23.0	9.8

[1] Not made.
[2] Prices checked with Cameron Iron Works.

Prices of equipment and supplies used in the petroleum producing industry, 1947, 1950, and 1953—Continued

	Dec. 6, 1947	June 24, 1950	June 15, 1953		
			Price	Percent increase over Dec. 6, 1947	Percent increase over June 24, 1950
Drilling mud:					
Aquagel, ton	$39.49	$41.25	$43.08	9.1	4.4
Barlod, ton	28.63	33.56	39.34	37.4	17.2
Clay, ton	25.21	25.38	27.78	10.2	9.5
Cement, regular	.895	.9775	1.25	39.6	27.8
Cement, quickset	1.02	1.1025	1.375	34.8	24.7
Services: Acidizing (1,000 gallons)	225.00	245.00	330.30	46.8	34.8
Electric logging (per survey):					
Schlumberger	387.00	407.00	505.00	30.5	24.1
Gamma ray	346.00	366.00	372.00	7.5	1.6
Mud logging	125.00	125.00	150.00	20.0	20.0
Gun perforating:					
1st 10 shots	165.00	165.00	250.00	51.5	51.5
11 to 50 per shot	3.25	3.25	2.80	16.9	16.9
Halliburton cementing 1,000-sack job	247.50	260.00	265.00	7.1	1.9
Unweighted average increase for all above items of material, equipment and services				35.0	19.7
Wages (per hour):					
Roustabouts	1.40	1.73	2.055	46.8	18.9
Pumpers	1.40	1.73	2.055	46.8	18.9
Drillers	1.86	2.00	2.41	29.6	20.5
Derrickman	1.36	1.50	1.83	34.6	22.0
Floormen (roughnecks)	1.26	1.40	1.72	36.5	22.9
Average all workers engaged in crude petroleum and natural gas production industry (per U. S. Bureau of Labor Statistics)	1.54	1.78	2.16	40.2	15.6

Mr. BROWN. There, Mr. Chairman, we have attempted to spotcheck our general information to see what the facts were, and we have listed the material we actually used. If you will notice, for instance, tubular material, which constitutes a very large part of our steel, the increases since 1947 have run over 40 percent in cost. Even the sucker rods, which we use in pumping our oil, have gone up over 36 percent. And the tax and the separators in which we store oil in the field have gone up from 24 to 35 percent, depending upon the size. The pumping equipment that we use to pump the oil has been continuously increasing and has gone up approximately 38 percent. Some of the smaller units are not quite so high. The control heads which are an important part is about the only thing we have that has not gone up. But that is a very small item in our total expense. That increase is only about 5 percent over. That has gone up some since 1947 but not as much as the other.

The fittings have also gone up some 50 percent. The larger fittings have not gone up quite so much.

The automobiles and trucks that we use in our operations have gone up from 20 to 30 percent. The waste that we use in our operations have gone up some 69 percent, and the bits which are an important part.

The waste is a very small item, I might say. The bits are a very important part and they have gone up from 23 to 33 percent. Even the drilling mud, which is becoming more important as time goes on, has gone up some 35 percent. The services, such as acidizing and

so on, have gone up about 45 percent. The electric logging that we must use to know where we are, that is our eye underneath the earth, has gone up considerably, from 16 to 30 percent, and the gun perforating, that is where we puncture the tubing to find the sands, has gone up materially. In other words, the average of these items is about a 35 percent increase that we have had.

At the same time, our wages, the oil field wages, have gone up on an average of 40 percent. We made those spotchecks to see if our general figures were correct, and we find they fit almost exactly in the pattern.

In connection with these cost figures, I want to point out that they do not reflect recent additional increases in steel prices and oil industry wages. Preliminary information indicates that steel materials have increased by about 5 percent more than shown in the above table while oil industry wages have been increased by an additional 4 percent.

While the above information on cost increases is highly significant to the oil producer, I appreciate that it is difficult to interpret these figures in relation to the recent increases in crude-oil prices. Therefore, I am attaching as exhibits II and III the last two reports of the cost study committee of the IPAA.

(Exhibits II and III follow:)

EXHIBIT II

REPORT OF THE COST STUDY COMMITTEE, INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA, ON INCREASED COSTS IN THE PRODUCTION OF CRUDE PETROLEUM IN THE FIRST HALF OF 1952 COMPARED WITH THE AVERAGE OF THE 3-YEAR PERIOD 1947–49, ADOPTED BY THE COMMITTEE AT A MEETING IN FORT WORTH, TEX., SEPTEMBER 23, 1952

(For presentation at the annual meeting of the association in Oklahoma City, Okla., October 23–24, 1952)

INCREASED COSTS DURING FIRST HALF OF 1952

In the first 6 months of 1952, estimated finding, developing, and production costs increased approximately 60 to 65 cents per barrel of petroleum produced, compared with the average of comparable costs in the 3-year period 1947–49. This is an increase of approximately 38 percent in contrast to the increase of only 6.6 percent in the average price of crude petroleum during the same period.

This estimate of increased cost does not include any provision for the higher cost of so-called "conversion pipe" and foreign pipe which many oil producers have been forced to use because of inability to obtain pipe requirements from normal domestic sources.

In addition to the sharp increase in volume of drilling activities, all the components of such activities increased in cost, as presented in further detail hereinafter and summarized in tables A and B.

ACTIVITIES INCREASED

Some activities materially affecting the volume of expenditures in the oil industry have increased during the first half of 1952 as compared with the 3-year period 1947–49, as follows:

	Percent of increase
Exploratory wells, footage drilled	59.14
Dry holes, footage drilled	70.58
All wells, footage drilled	48.84
Average depth of all wells completed	17.90

UNIT COST OF ACTIVITIES INCREASE

A summary of increases in certain other elements of cost for the same period is given below:

	Percent of increase
Wages and salaries	35.35
Construction costs	23.02
Composite of wholesale prices of finished steel per pound	25.94

CUMULATIVE INCREASES IN COST

The accompanying table A shows the principal factors of increased income, activities and costs in the petroleum industry. Table B presents an application of those factors in determining the cumulative increase in costs, and the net cost per barrel of crude production expressed in percentage, after allowing for increased production. This table is summarized as follows:

Cost increases per barrel of crude petroleum produced expressed in percent, first 6 months of 1952 over average of 3-year period, 1947–49

	Percent of increase
Wages and salaries	13.70
Other operating and administrative	30.24
Exploratory	64.00
Dry holes	75.80
Intangible drilling of productive wells	43.26
Equipment of productive wells	46.66

NET REDUCTION IN EARNINGS

Domestic production in the first half of 1952 increased 19.37 percent over the base period (1947–49). Giving effect to the cumulative increase in cost of production with allowance for increased volume of production and slightly higher price, current net earnings per barrel of net company interest crude oil produced are estimated to have declined between 50 and 60 cents per barrel below the average earnings in 1947–49.

It should be remembered that not all producers of crude petroleum participated in the overall increase in production. For many producers in a large number of oilfields and areas, there has been no increase in production. In these cases where production did not rise, increases in net cost per barrel of production and reduction in net earnings were substantially greater than indicated by the before-mentioned overall figures.

COST INCREASES SINCE JUNE 1952

Further increases in costs have occurred since June 1952, because of the settlement of the labor strike in the petroleum industry and the increases in steel prices following the conclusion of the labor strike in the steel industry.

Wages and salaries in the petroleum industry in the first 9 months of 1952 were about 7½ percent higher than the January 1, 1952, level, or approximately 15 cents per hour more. The full effect of this increase is not shown in the first 6 months average. Wages and salaries will rise an additional 4.1 percent in the third quarter as compared with the first half of 1952.

Domestic steel prices are now 6½ percent above prices prevailing in the first half of the year. The increases in prices were $6.50 per ton on casing, $11 per ton on tubing and drill pipe, and $14 per ton on other grades of pipe.

The construction costs index for August 1952 was 5.24 percent above the index for the first half of 1952.

On the basis of the foregoing indicated increases in labor and material costs, it is estimated that overall costs in the third quarter of 1952 will exceed the overall average in the first half of the year by 5.5 percent.

It is estimated that these additional costs to the petroleum industry in the second half of 1952, compared with the first 6 months of the year, will approximate 15 cents per barrel of net production, bringing the estimated increase in current costs to between 75 and 80 cents per barrel over 1947–49 costs.

OPS EARNINGS STANDARD

It is the opinion of the committee that the current earnings from the production of crude petroleum fall considerably short of the earnings required by the industry. A computation under the provisions of the earnings standard or so-called Johnson formula, laid down by the Office of Price Stabilization in its price operations memorandum No. 25, dated February 15, 1952, for determining the necessity and amount of price adjustment, indicates that a substantial upward adjustment in crude price ceilings, which have remained unchanged since December 1947, is warranted.

COMMITTEE MEETING IN SEPTEMBER

The foregoing report was adopted by the members of the cost study committee of the Independent Petroleum Association of America in its meeting at Fort Worth, Tex., September 23, 1952, with all members present except Norman D. Fitzgerald, Stark Fox, and E. P. Potter. However, Mr. Potter and Mr. Fox submitted, through the chairman, a review of the proposed report with their comments which have been considered in drafting this final report.

Others present at the meeting were Harold B. Fell, executive vice-president of the Independent Petroleum Association of America, and Harold Cashman of the Sun Oil Co.

For the committee.

JAMES V. BROWN, *Chairman.*

MEMBERS OF COST STUDY COMMITTEE

James V. Brown, chairman
J. P. Coleman, vice chairman
Melvin L. Mesnard, secretary
Harold B. Fell, ex officio
Harold Cashman [1]
Alden S. Donnelly
Norman D. Fitzgerald
Stark Fox
Serge B. Jurenev
Charles Klein
L. J. O'Connor, Jr.
E. P. Potter

[1] Nonmember, attended meeting of committee on September 23, 1952, as result of vacancy created by death of Benedict Saurino.

TABLE A.—*Principal factors of increased income, activities, and costs in the finding, developing, and producing of crude petroleum in the first half of the year 1952 compared with the average of the 3-year period, 1947, 1948, and 1949*

Item	Average of 3 years 1947–49	First half of year 1952	Percent of increase first half 1952 over average for 1947–49
INCOME FACTORS			
Average price of crude petroleum per barrel [1]	$2.357	$2.513	6.62
Production: Crude petroleum—all oils, 1,000 barrels daily [1]	5,617	6,705	19.37
EXPENSE AND COST FACTORS			
Wells drilled (average daily): [2]			
Exploratory—total number	18.96	28.82	52.00
Development—do	82.84	99.83	20.51
Total—do	101.80	128.65	26.38
Dry holes—do	31.55	45.90	45.83
Productive—do	70.25	82.75	17.79
Average depth of all wells (in feet) [3]	3,475	4,097	17.90
Footage drilled (average daily): [2]			
Exploratory—thousand feet	78.14	124.35	59.14
Development—do	275.99	402.73	45.92
Total—do	354.13	527.08	48.84
Dry holes—do	110.24	188.06	70.58
Productive—do	243.89	339.02	39.01
Total footage drilled per thousand barrels of crude petroleum produced [3]	63.05	78.61	24.68
Wages and salaries: [4]			
Average hourly earnings	$1.639	$2.033	24.04
Average weekly earnings	$65.84	$83.88	27.40
Total number employed (thousands)	251.3	267.7	6.53
Total weekly payroll (millions)	$16.59	$22.45	35.35
Construction cost index (1913+100) [3] Engineering News-Record	453.0	557.3	23.02
Composite of wholesale prices for finished steel [5] (per pound)	$0.0374	$0.0471	25.94

[1] Based on Bureau of Mines.
[2] World oil.
[3] Calculated.
[4] Bureau of Labor Statistics.
[5] Survey of Current Business, Department of Commerce.

TABLE B.—*Application of cost factor indexes reflecting percent of net increase in unit costs by elements in the production of crude petroleum, first half of year 1952 compared with average of 3-year period 1947–49*

Expense item	Increased activities (1)	Increased unit costs (2)	Total increased costs [1] (3)	Increased production [2] (4)	Net increase in unit costs, percent [3] (5)
Wages and salaries	[4] 106.53	[5] 127.40	135.72	119.37	13.70
Other operating and administrative	[6] 126.38	[7] 123.02	155.47	119.37	30.24
Exploratory	[8] 159.14	[7] 123.02	195.77	119.37	64.00
Dry holes	[9] 1,170.58	[7] 123.02	209.85	119.37	75.80
Intangible drilling (productive wells)	[10] 139.01	[7] 123.02	171.01	119.37	43.26
Equipment	[10] 139.01	[11] 125.94	175.07	[1] 119.37	46.66

[1] Increased activities (1) times increased unit costs (2) equals column (3).
[2] Production index.
[3] Indexes in column (3) divided by production index in column (4) equals percent of increase in net costs per barrel of crude petroleum produced.
[4] Number employed.
[5] Total weekly wages.
[6] Total wells completed.
[7] Construction cost index.
[8] Total exploratory footage drilled.
[9] Total dry-hole footage drilled.
[10] Total productive well footage drilled.
[11] Composite of wholesale prices for finished-steel index.

NOTE.—Index, average of 3 years, 1947–49=100. Above indexes are average for 1st 6 months of year 1952

EXHIBIT III

REPORT OF THE COST STUDY COMMITTEE OF INDEPENDENT PETROLEUM ASSOCIATION OF AMERICA ON THE INCREASED COSTS IN THE FINDING, DEVELOPMENT, AND PRODUCTION OF CRUDE OIL AND NATURAL GAS

(For Presentation at the Meeting of the Association, St. Louis, Mo., April 27–28, 1953)

COST TREND UPWARD

The upward trend in costs of finding, developing, and producing crude oil and natural gas continued with increased acceleration in 1952, substantially reducing the overall earnings of the petroleum industry, particularly the domestic producing industry.

All the factors entering into the search for oil, its development, and production (by both primary and secondary methods) contributed to an increase in overall costs. Drilling and equipment costs are up; payrolls are higher; leases are more costly to acquire; considerably more exploratory and development effort is necessary; wells must be drilled in greater number and to greater depths; the percentage of dry holes has been rising sharply; maintenance difficulties increase with older wells and equipment and the results in new reserves found are the lowest in years.

Some of the principal factors of costs and expenditures currently reducing net incomes are as follows:

1. The step-up in efforts to tap more new sources of oil to meet increased demand has required larger expenditures for the expansion of properties, plants, and equipment.

2. Depletion and depreciation charges have increased in line with the larger investment in property plant and equipment. Even so, these charges for depletion and depreciation are inadequate for replacement of assets acquired at lower price levels 10 to 15 years ago.

3. Costs of materials, equipment, and labor have progressively increased.

4. The oil and gas producing industry is carrying an increasing burden of Federal, State, and local taxes.

5. There exists a disparity of prices received from the sale of crude oil as related to increased costs. There has been no general rise in prices of crude oil since the end of 1947 while the prices of practically all other commodities have risen sharply. During the same period there have been several wage increases.

6. Exploratory and development effort as measured by footage drilled is greater in relation to the quantity of oil produced, while the percentage of dry holes to the total number of wells drilled, is the highest on record. The average well in 1952 was over 200 feet deeper than the average well in 1951, and over 650 feet deeper than those drilled in 1947.

7. In 1952, the domestic industry continued, as it has in the past, to find and develop more oil than was produced. However, it required 2 feet of drilling in 1952 to find the same volume of new oil as 1 foot of drilling found in the 1947–49 period. The unit cost of finding and development of new reserves, therefore, continued to increase.

8. Leases are more expensive to acquire while only a small fraction of the acreage acquired is found to be productive of petroleum or natural gas.

9. Greater outlays are necessary for geological and geophysical operations. There was an average of 734 crews in operation during 1952 compared with an average of 502 in the 3-year period 1947–49, a 46-percent increase.

INCREASED COSTS NOT OFFSET BY INCOME FACTORS

The additional costs of exploration, development, and operation have not been offset by the increased rates of production nor have there been compensating price increases consequently; the net income of a large number of companies declined in 1952.

COST FACTORS

In addition to the sharp increase in the volume of drilling activity all components of such activities have increased in cost. A summary of the principal factors of increased income, drilling activities, and costs in the finding, developing, and producing of crude petroleum, natural-gas liquids, and natural gas in

1952 compared with the average of the 3-year period 1947–49 is shown in table 1 herewith.

Further evidence of increasing costs and the factors which are affecting net income are reported in the published annual reports for 1952 of many companies producing crude oil and gas. Excerpts relating to costs from some of the published annual reports currently available are shown in exhibit A attached hereto.

DRILLING ACTIVITIES INCREASE

A few of the important factors affecting the volume of expenditures in the oil and gas industry, together with the percentage increase during the year 1952 as compared with the average of the 3-year period 1947–49 are as follows:

	Percent of increase
Exploratory wells, footage drilled	78.5
Dry house, footage drilled	75.6
Productive wells, footage drilled	29.8
Total of all wells, footage drilled	44.1
Average depth of all wells completed	16.8
Percent of dry holes to total wells drilled	24.8
Geophysical crews	46.2

PAYROLLS AND MATERIALS COSTS INCREASE

Increases in certain elements of costs of operation for the same period are:

	Percent of increase
Hourly wages	27.2
Number of employees	6.4
Construction costs	26.3
Finished steel per pound	25.5
Wholesale prices of all commodities except farm products and foods	13.2

INCREASED PRODUCTION AND PRICE FACTORS DO NOT OFFSET INCREASED COST FACTORS

Domestic production in 1952 was 22.3 percent over the average of the 3-year period, 1947–49. The average price of crude oil in 1952 was $2.53 per barrel or 7.3 percent above the average price per barrel for the 3 pre-Korea years (1947–49).

These increases in revenue from the production of crude oil at a slightly higher price did not offset the increase in cost.

ESTIMATED NET INCREASES

In a report presented at the annual meeting of the Independent Petroleum Association of America in October 1952 this committee estimated that the national average additional cost of finding, developing, and producing crude petroleum in 1952 would be between 75 and 80 cents per barrel over the average costs in 1947–49. The statistical data now available for the full year of 1952 which is summarized in table 1 and the excerpts from the annual reports of oil companies presented in exhibit A herewith, supports the committee's previous estimate as being conservative.

(Signed) JAMES V. BROWN, *Chairman*
(For the Committee).

MEMBERS OF COMMITTEE

J. P. Coleman, Vice Chairman
Melvin L. Mesnard, Secretary
Alden S. Donnelly
Stark Fox
Minor S. Jameson
Serge B. Jurenev
Charles Klein
L. J. O'Connor, Jr.
Foster Parker
Charles A. Pfahler
E. P. Potter

EXHIBIT A. REPORT OF IPAA COST STUDY COMMITTEE, APRIL 1953

(Excerpts from financial statements of companies producing crude oil in the United States relating to increased costs of finding, developing, and producing crude petroleum)

THE AMERADA PETROLEUM CORP.

"There has been no reversal in the trend of rising costs of finding and producing crude oil and gas, and no such reversal is in sight. * * *"

THE ATLANTIC REFINING CO.

"* * * in common with oil-industry experience generally, our increased cost of doing business was not offset by compensating price increases, and consequently our net income declined. * * *

"The increase in operating expenses is not attributable to any one cost, but rather to a multitude of factors which affected all of our operations. Many of the goods and services which we purchase from others were more expensive. Our extensive efforts to find new oil required substantially higher current expenditures. * * * Another major increased expense was the rise of * * * nearly 12 percent—in payrolls, resulting mainly from general wage increases granted in late 1951 and early 1952. It will also be seen that charges for depreciation and depletion were increased by more than $5 million last year. These charges are now showing some of the effect of the sharp rise in the prices of properties and equipment in recent years. Even so, current depreciation and depletion funds are inadequate to replace assets which were acquired at the much lower price level of 10 or 15 years ago.

"For this reason, among others, our depreciation and depletion funds and retained earnings have been insufficient during recent years to replace obsolete facilities and to provide for needed expansion of properties, plant, and equipment, so that it has been necessary to draw on our working capital for these purposes. Consequently, we anticipated that, subect to market conditions, we will seek additional capital funds during 1953 to finance our program of expansion and improvement for the next few years * * *.

"Even though capital expenditures last year were less than expected, they amounted * * * to the highest on record. In the last 7 years, since the end of World War II, our capital expenditures have totaled nearly $360 million—an amount equal to the cost value of all the properties, plant, and equipment we owned at the beginning of the period. * * *"

CITIES SERVICE CO.

"* * * Contributing to lower earnings were such factors as the continued high tax burden, cost inflation, and arbitrary price ceilings; a month-long strike which curtailed operations of most oil companies * * *."

"Recent removal of Federal price restrictions upon crude oil and petroleum products probably will be reflected, in the near future, in local adjustments only. Eventually, however, more farreaching price corrections will be required to maintain the industry's stability and soundness.

"In recent years, the prices of petroleum products have not reflected the large advance in costs of materials and labor incident to the finding, developing, refining, and marketing of oil and its products, or the tremendous growth of the tax burden. There has been no general rise in the price of crude oil since December 1947. Meanwhile, six general wage increases, together with so-called fringe benefits, have increased unit labor costs 50 percent. Cost of steel pipe and other equipment also have advanced substantially. In spite of this disparity between prices and cost, the petroleum industry has carried forward one of the most remarkable expansion programs in industrial history. It has developed large new oil reserves and equipped itself to meet all civilian and military requirements that can be foreseen. No other industry can point to comparable performance without price increases which at least compensate for its increase in costs."

CONTINENTAL OIL CO.

"* * * the cost of doing business increased materially. This was due primarily to higher wages, higher material costs, and the greater depths to which exploratory and development wells had to be drilled. * * *"

"On a unit basis, drilling costs rose sharply in 1952 due to an increase of over 873 feet in average well depth and to higher material and labor costs."

"While the cost of doing business increased in many categories, some of which were directly related to the greater volume of products manufactured and sold,

those bearing most importantly on the comparative reduction of earnings for 1952 were the blanket cost-of-living wage and salary increases granted; the addition of personnel to handle the company's expanding activities; and rental payments on a greater number of acres held under oil leases."

GULF OIL CORP.

"Operating costs and expenses continued to increase—a trend that has been evident for several years. Over this period numerous wage and salary increases have been made by your company and throughout the industry, and Gulf's average wage rates today are 30 percent above the level of 5 years ago. In addition, there have been marked increases in the cost of materials and services."

"Approximately two-thirds of the petroleum industry's capital expenditures are devoted to the search for and development of new production. Your company has long been conscious of the importance of crude-oil production and devotes large amounts of money and effort in the search for new reserves."

"In mid-1952, a general payroll increase of approximately 4 percent was put into effect in keeping with the general trend in the petroleum industry. Including a general payroll increase effective in December of the previous year, average wage and salary rates in the last half of 1952 were about 7½ percent higher than those prevailing throughout most of 1951, and approximately 30 percent above the level of 5 years ago. The industry is among the highest in rates of pay of all industries in the Nation."

HONOLULU OIL CORP.

"The industry has witnessed a continuing and rapid advance in operating costs for several years past. These increases along with the rising cost of finding oil have strongly indicated the necessity for higher prices for oil * * *."

HOUSTON OIL CO. OF TEXAS

"Last year the need for a price adjustment in crude oil to offset increased costs and expenses was pointed out as a major problem for oil producers. With costs of all types continuing to rise this is an even more serious matter today. If the oil-producing capacity of the industry is to be raised to the level requested by the Government, there must be an adequate price incentive to justify the ever greater and more costly exploration risks * * *."

HUMBLE OIL & REFINING CO.

"Continued increase in costs is the fact that stands out in Humble's operations in 1952, as indeed it does in operations of the domestic petroleum industry as a whole.

"This increase exists in all operations. It arises out of conditions inherent in the business today, and persists in the face of diligent efforts at control. Payrolls are higher; costs of materials are up; and other items have increased likewise. Particularly in exploration and production are costs higher. Leases are more expensive to acquire. To replace production and expand reserves requires more exploration effort, including an increase in the number of exploratory wells. Also wells must be drilled deeper and are completed often in thinner sands and in more complicated reservoirs. As a consequence well completion costs and dry hole expenditures grow larger. In 1952 Humble's dry-hole expenditures were more than $43 million, nearly $13.8 million higher than in 1951, and accounted for 36 percent of all Humble's drilling costs. Likewise expenditures for producing oil and gas continue to increase. As wells grow older and the total quantities of oil withdrawn from the reservoirs increase it becomes necessary to work over a larger number of wells and resort often to more expensive artificial methods of lifting oil in order to increase current production and ultimate recovery. An expanded workover program growing out of an accumulation of such wells was a substantial factor in the higher costs during 1952.

"While increases in costs have continued, price controls in effect from late 1950 through 1952 prevented price adjustments in response to conditions prevailing at the time. In fact, the average price of crude oil and the average wholesale prices of petroleum products are lower today than at the end of 1947 except in California.

"Expenditures for exploration have increased sharply in recent years because of an expansion in personnel and effort, as well as rising costs for crews, leasing, lease rentals, exploratory wells, and other items * * *."

"Average cost per well:

1952	$106,500
1951	81,500

"Humble's expenditures on dry holes and total drilling costs in 1952 were greater than in any prior year, as a number of factors combined to increase average costs per well by nearly 31 percent. * * *"

"Contributing to the higher average well cost were a greater proportion of wildcats, an increase of 334 feet in average depth * * * in 1952, more footage drilled in abnormal pressure areas that involve unusual costs, and a further rise in prices for materials and in rates of pay. Changes in the drilling conditions encountered resulted in an average increase of 7 days drilling time per well, with a corresponding effect on costs. * * *"

"The large increase in dry-hole costs was due to the greater number of dry holes, a higher average cost per dry hole, and increasing emphasis on exploratory drilling below known productive horizons. In some cases the search for deeper production is unsuccessful although the well may be completed as a successful producer in a shallower horizon. The cost of drilling below the productive horizon is charged off as dry-hole expense."

"Operating costs for production increased sharply during 1952 as a result of several factors: (1) A major workover program designed in the light of good reservoir engineering practices to increase current production and ultimate recovery of oil; (2) greater depreciation charges resulting from higher investment costs in recent years; (3) record costs for exploration and dry holes; (4) the additional personnel and expense involved in operating more producing leases and wells; and (5) higher rates of pay * * *"

"* * * net income was lower because of generally higher operating expenses, increased charges for depreciation, and higher dry-hole costs."

"Expanded producing and exploration activities required more employees, and rates of pay and prices for materials purchased were higher. Another significant cost increase occurred because of a major well-workover program. Provisions for depreciation, depletion, and amortization exceeded those of 1951 * * * reflecting the continued increase in investment and the higher cost of facilities acquired in recent years to produce and handle crude oil.

"Dry-hole costs * * * were * * * $10,797,900 more than the previous high of 1949. * * * Dry-hole costs accounted for 36.4 percent of total drilling costs. * * *"

PAN AMERICAN PETROLEUM & TRANSPORT CO.

"There were several factors, which combined to reduce our earnings. * * *

"The primary factor was the nationwide oil strike in April and May. * * *

"Another major factor was that, like the rest of the industry, we were caught between rising costs and governmentally fixed prices. Therefore, even though gross income was up, our net earnings were down."

"Wages and salaries during 1952 exceeded the 1951 total * * * due to both increases in rates and a larger number of employees. Employee benefits were * * * more than in 1951, an increase of 24.6 percent."

"The Federal Government recognizes that the amount needed for replacement of tools and crude reserves is not income subject to taxation. However, the replacement fund should be sufficient for its purpose. Under present regulations this is not so. The amount recognized by the Government as a replacement fund is wholly inadequate to buy replacements at present high prices."

PLYMOUTH OIL CO.

"In 1952, despite acute shortages of tubular goods, the company drilled a new high record of * * * wells * * *. Deeper and more costly drilling, however, is having its effect on the net profit per barrel being obtained from new production. As an illustration, the unit cost per barrel chargeable against each barrel of Plymouth's production, to provide for the depletion of drilling and leasehold costs and depreciation of equipment, averaged 17½ cents per barrel in the year 1942 as compared with 44½ cents for the year 1952. The average for 1947, the year in which the last crude-oil price increase was effective, was 23 cents per barrel. It is quite apparent, therefore, that the increased costs of equipment and deeper drilling are having a marked effect upon the company's net profit.

"* * * deeper and more costly drilling is having a marked effect upon the new production being obtained by the company, since the company has received no crude price increase since 1947 to compensate for these increased costs. As

an example, we are setting forth below certain company statistics which clearly show the rising trend of drilling costs:

	Year 1947	Year 1952
Intangible and tangible costs: Completed wells	$1,679,577	$7,242,119
Wells completed	31	98
Average cost per well	$54,180	$73,899
Total footage	172,645	657,747
Average depth per well (in feet)	5,569	6,712
Average cost per foot	$9.73	$11.01

"It is apparent from the above that the producing branch of the Oil Industry cannot continue indefinitely to search for new sources of crude through deeper and more costly drilling without a compensating increase in the price of crude oil.

"The industry is pardonably proud of having again established new high-water marks in production, development, exploration, and refining, especially in view of the fact that all this was accomplished despite rising costs, shortage of critical materials and a crude price structure that remained frozen at the levels of 1947."

"* * * The American people are so accustomed to having plentiful supplies of petroleum products at a cost far below that in all other countries, that they are apt to overlook that there has been no increase in the price of oil since 1947, despite the fact that the cost of all other commodities has risen enormously in that same period. The oil industry has been able to exist during these 6 years only because it has been drawing upon reserves that were discovered and developed at the lower costs prevailing from 15 to 25 years ago. These low-cost reserves are steadily being exhausted and an ever-increasing percentage of production is coming from the discoveries and developments of the much higher cost postwar period."

THE PURE OIL CO.

"The reduction in earnings in 1952 is due in substantial part to increased costs of materials, higher wages, fixed ceiling prices under Federal regulations and lower fuel oil prices following the steel strike during the middle of the year. An additional contributing factor was the refinery strike during the month of May, which resulted in suspension of operations at three of the company's largest refineries * * *."

"The company plans to continue its active geological, geophysical and exploratory drilling program during the year. The cost of these activities continues to increase due not only to causes not peculiar to the oil industry, but to the fact that we have to drill to progressively greater depths."

"In line with all industry, operating costs were higher than during the previous year, due primarily to the increase in wage rates which became effective the first of June, together with the higher cost of materials purchased, excluding crude oil."

"The industrial expansion of the postwar years, which has been the greatest in our history, has brought with it the fear in the minds of some that American industry may have developed in excess of future demands. Our industry, by reason of its careful planning in cooperation with Government authorities, has been able to meet the demands of the armed services and the record requirements of the civilian economy. This has been accomplished in the face of higher material costs, steadily mounting wages and material shortages, with the prices for our products fixed unrealistically low by the Federal price-control authority."

STANDARD OIL CO. OF CALIFORNIA

"Because of continued higher costs caused by inflation, the charges against earnings for depreciation and depletion have proved inadequate to finance the replacement of facilities and it is anticipated this will be true for some time in the future. For this reason, and also because of expansion requirements, it is probable that a substantial part of earnings will continue to be required for capital outlays."

STANDARD OIL CO. (INDIANA)

"Briefly, our business continued to grow in volume last year, but our net earnings were down. * * * Our earnings after all charges and taxes were $7.81 per share as compared with $9.71 in 1951 and $8.09 in 1950."

"One reason for lower profits was the strike in seven of our refineries last spring * * *."

"Even more important was the fact that we were caught between rising costs and rigid price ceilings on crude and products * * *."

"The outlook for petroleum product demand in 1953 is for another increase, probably slightly larger than in 1952. Ours is one of the few industries whose price levels are generally below those in 1948. With costs continually rising, we need higher prices for both crude and products. * * *"

"Total costs and other deductions from income rose * * * 6 percent over 1951 and 25 percent over 1950. The increase was due partly to higher volume and partly to higher unit costs. Crude oil, materials, and services cost * * * up 8 percent. Wages and employee benefits totaled * * * 15 percent higher. Provision for wear and tear on equipment, oil and gas taken from reserves, and abandoned facilities were * * * up 10 percent."

THE STANDARD OIL CO. (OHIO)

"The improvement in revenue was more than offset by increases in the cost of doing business. The largest single factor was an increase in payroll, amounting to $4.2 million, resulting from general wage increases and a small increase in employment.

"Increased charges for depreciation and amortization of facilities and for depletion of oil reserves also contributed to the overall increase in costs. Part of the increase in depletion reflects the greater number of barrels produced and part represents the increased investment cost of newly developed underground oil reserves. * * *"

SEABOARD OIL CO. OF DELAWARE

"* * * Operating and general expenses increased, reflecting greater outlays for geological and geophysical exploration as well as higher wage and salary levels. * * *"

"* * * the general level of crude-oil prices has not advanced since 1947, while finding and operating costs have increased greatly. It appears that prices must be increased if adequate reserves, essential to natonal security, are to be maintained in this country."

SHELL OIL CO.

"* * * 1952 * * * was * * * a year in which the margin between revenues and costs narrowed still further, thus resulting in a decline in earnings."

"* * * Operating charges for 1952 * * * rose to * * * 15 percent over 1951. The proportionately greater increase in costs is attributable to several factors, the principal ones being the prolonged strike which shut down the refiniery and chemical plant at Houston for 75 days, increases in salaries and wages, higher material costs, and the heavy drilling program."

"* * * it is desirable from time to time to emphasize the great increase in the cost of new construction and rehabilitation that has occurred in recent years. For example, the provisions in 1952 for depreciation, depletion, amortization, and other writeoffs were $138,562,000, or only 67 percent of the capital expenditures incurred in the year."

"At the year end the number of employees on the payroll was * * * 7 percent more than at the end of the preceding year. The total amount of wages and salaries paid during the year rose * * * 12 percent over 1951, largely because of the wage and salary increases granted during the year."

SUN OIL CO.

"Financial results show highest total gross operating income in company's history, but net income dropped below record total of 1951."

"Another disappointment was a decrease at the year's end of approximately 3 million barrels in gross crude-oil reserves, including natural-gas liquids. This figure was approximately twice our increased production for the year. This drop in Sun's recorded proved reserves occurred in a year when greatly increased efforts were made to discover new oil in order to bring into better balance the company's production and the requirements of its refineries."

"Our exploratory experience last year affords an example of the risks and hazards constantly facing those who seek new oil resources. It is a refutation of those who would give the false impression that lucrative results can be easily achieved."

"One cause of constant concern to us is the increasing cost encountered in drilling wells. Not only are costs rising as a result of the greater depth of wells, but of the fact that virtually all items of investment and expense in connection with drilling operations have increased steadily over recent years. Our wells drilled along the Texas and Louisiana coastline in 1952 cost approximately 16 percent more per foot to drill than equivalent wells completed in 1951 * * *."

SUNRAY OIL CORP.

"Operating costs have increased out of proportion to selling prices of commodities. Payroll rates were increased an average of 7½ percent during the year. With increased expenses and ceiling prices on both crude oil and manufactured products, the entire industry is faced with a situation requiring either a reduction in taxes or increased selling prices to obtain normal profits. Sunray has never sought to avoid paying its fair share of national and local taxes. However, it is our duty to point out that the company's combined total of taxes for 1952 virtually equals the dividends paid to shareholders. A reduction in the national tax burden for industry and individual alike would seem imperative in the not too distant future."

TEXAS AND PACIFIC COAL & OIL CO.

"* * * The increase in gross income * * * was offset by increased cost including * * * increase in dry-hole expense resulting from the expanded wildcat program * * *."

THE TEXAS CO.

"The last general crude-oil price increase in the United States occurred in December 1947. Since then the wholesale price index of all commodities other than farm products and foods, compiled by the United States Bureau of Labor Statistics, has increased approximately 12.5 percent. However, the increase in the cost of finding and developing new crude-oil reserves to replace withdrawals has far exceeded the increase in the commodity index. This is due not only to advances in labor and material costs but also to deeper drilling and to a lower percentage of successful wells. The inflationary trend in other operating costs also continues. In our opinion, the industry is approaching the time when a higher price for crude oil will be necessary to prevent a decline in the Nation's reserves."

"* * * net earnings from domestic operations were lower than in 1951. This decline in domestic earnings was, for the most part, due to the continued upward trend in operating costs and expenses without compensatory increases in market prices of crude-oil and petroleum products. * * *"

UNION OIL CO. OF CALIFORNIA

"* * * earnings before income taxes decreased * * * from 1951 to 1952. This decrease is attributable mainly to the higher cost of labor, services, materials, and equipment. * * * The average hourly wage rates for petroleum production and refining in 1952 were 23 percent higher than the 1948 averages, and the wholesale commodity price index (excluding farm products and food), which is one measure of material and equipment costs, is up 9.6 percent. Yet crude oil and refined product prices remained frozen at levels which, on the average, are below those of 1948."

"Because of inequitable price and wage controls, high taxes, and the lack of recognition, either for accounting or income-tax purposes, of the inflated cost of replacing facilities as compared with older and lower historical costs, it has been increasingly difficult to generate sufficient funds from operations for essential expansion and replacements. Therefore, in order to provide the additional money necessary to finance the capital additions being made, in May 1952 the company sold $35 million of its 3⅛-percent convertible debentures, which mature on May 1, 1972. * * *"

"Indicative of the high costs involved in the finding of new oil or gas fields is the fact that, in addition to the several dry shallow wells drilled in this area, 17 unsuccessful deep tests, 12 of which the company participated in, had been made before the discovery well was brought in on this prospect."

"As the prices which an industry or a company must pay for essential commodities rise, as wage rates are increased, and as other costs go up, the price which the ultimate consumer pays must also increase, for a company has no major source of income other than its customers. The completely unrealistic price

controls on petroleum made it difficult, if not impossible, for a company to maintain net earnings at an adequate level based on capital invested.

"By itself such a condition presents serious obstacles to industry's efforts to enlarge productive facilities in order to provide the goods and services needed by this country in both peace and war. When combined with the crippling tax burden now borne by industry and the individual taxpayer, the job of continuing to increase production becomes impossible of accomplishment.

"Unfortunately, during the past several years the harmful effect of such regulations and taxes upon the availability of capital for industrial expansion either has not been recognized or has been ignored. In view of the continually growing demand for petroleum products, the capital requirements of Union Oil Co. and others in the industry must be a matter of interest to those concerned with the productivity and strength of the Nation. The unrealistic price ceiling existing in 1952 and the punitive corporate-tax rate made it impossible to generate internally sufficient funds for the company to keep pace with the growing demands. Likewise, such restrictions provide less and less incentive for the individual to risk his funds in corporate enterprises."

TABLE 1.—*Principal factors of increased income, activities, and costs in the finding, developing, and producing of crude petroleum and natural-gas liquids in the year 1952 compared with the average of the 3-year period 1947–49*

Items	Average per period, 1947–49	Year 1952	Index of 1952 factors (1947–49=100)
INCOME FACTORS			
Average price of crude petroleum (per barrel)[1]	$2.357	$2.53	107.34
Production of crude petroleum and natural-gas liquids (M b. d.)[1]	5,617.1	6,868.5	122.28
EXPENSE AND COST FACTORS			
Wells drilled (number of wells):[2]			
Exploratory	6,930	11,066	159.68
Development	30,265	34,819	115.05
Total wells	37,195	45,885	123.36
Dry	11,529	17,759	154.04
Productive	25,666	28,126	109.58
Footage drilled (thousand feet):[2]			
Exploratory	28,547	50,953	178.49
Development	100,834	135,447	134.33
Total wells	129,381	186,400	144.07
Dry	40,276	70,730	175.61
Productive	89,105	115,670	129.81
Average number of feet drilled per thousand barrels produced[3]	63.05	74.15	117.61
Average depth of wells drilled (in feet per well):[3]			
Exploratory	4,119	4,604	111.77
Development	3,332	3,890	116.75
Total wells	3,478	4,062	116.79
Dry	3,493	3,983	114.03
Productive	3,472	4,113	118.46
Percentage dry wells to total drilled during period[3]	31.00	38.70	124.84
Percentage productive wells to total drilled during period[3]	69.00	61.30	88.84
Geophysical and core drill crews[4]	502	734	146.22
Wages and salaries:			
Average hourly earnings[5]	$1.639	$2.084	127.15
Total number employed (thousands)[6]	251.3	267.4	106.41
Index of wholesale prices of all commodities except farm products and foods (1947–49=100)[5]	100.00	113.20	113.20
Composite of wholesale prices for finished steel (per pound)[6]	$0.0385	$0.0483	125.45
Construction costs index (1947–49=100)[6]	100.00	126.30	126.30
PETROLEUM RESERVES FACTORS[7]			
Ratio of total new reserves found to production	1.70	1.30	76.47
Reserves found per exploratory foot drilled (barrels)	22.76	11.35	49.87
Reserves found per development foot drilled (barrels)	28.45	20.14	70.79

[1] Based on Bureau of Mines data.
[2] World Oil.
[3] Calculated on foregoing data.
[4] Interstate Oil Compact Commission.
[5] Bureau of Labor Statistics.
[6] Survey of Current Business, Department of Commerce.
[7] Calculations based on API data and previously stated sources.

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Mr. BROWN. The studies of that committee show the substantial increases in costs per barrel of crude oil. Taking into account all the factors of increased costs, the committee determined that the national average additional cost of finding, developing, and producing crude petroleum in 1952 was between 75 and 80 cents per barrel over the average cost for the period of 1947–49. The recent increase of about 25 cents per barrel in the price of crude petroleum is moderate in relations to this increase in cost.

Questions have been raised at this hearing as to how oil companies can continue to operate, and even show a profit, if costs have increased to the extent indicated. The explanation for this situation lies in the peculiarity of the crude-oil-producing industry.

Replacement operations in the production branch of the oil industry are the major and normal operation. Something like 60 cents out of every dollar received from the sale of crude oil is spent in the search for, and development of, new oil reserves to replace those sold. This situation does not apply in any other industry. Through the sale of crude oil found and development at relatively low cost many years ago, oil companies show in their financial statements a substantial profit that does not take into account the current cost of replacing this oil. It reflects merely inventory appreciation and not real profits. The net effect as far as reported profits of oil companies is concerned is a serious overstatement of real earnings.

The steady increase in replacement costs of crude oil will not be reflected in the financial statement of oil operators for many years. If these increased replacement costs are not reflected in the price of oil, however, the industry will be unable to maintain its oil supplies and will be in the process of liquidation. In this connection, I would like to call the attention of the committee to the excerpts from published annual reports, attached to exhibit III, which reflect the widespread concern about this problem.

I hope the committee will have time to go through that, because there is a statement of the oil companies to their stockholders as to what they were confronted with in their operation. We have set out a number of those for the information of the committee.

During these hearings, there has been a considerable discussion of petroleum supply, demand, and inventories as to crude oil and refined products. In the case of crude oil, above-ground stocks are not a true measure of the industry's inventory position.

The supply of crude petroleum is not fully reflected in either the rate of production or the stock level at any given time. The supply position depends also, and more fundamentally, on the extent of new discoveries, proved reserves, and productive capacity. The industry's real inventory of crude oil is in underground reservoirs rather than in storage tanks.

Experience shows that the oil industry maintains a total inventory of proved reserves plus above-ground stocks in the range of 10 to 15 years of supply. As crude oil is withdrawn for this inventory for production and consumption, additional quantities are added to this total inventory by the discovery and development of new oil reserves. The real supply-and-demand position as to crude oil depends on the rate of discovery to relation to the rate of use. It is reflected in the total proved reserves and above-ground stocks as compared with the current demand for crude oil.

The following table shows the Nation's total inventory of crude oil and the total crude-oil demand over the past 17 years.

(The table referred to follows:)

Year	Crude-oil inventories, Jan. 1			Total yearly demand for crude oil	Number of years' supply		
	Under ground proved reserves	Above ground	Total		Proved reserves	Above ground stocks	Total
	Million barrels	*Million barrels*	*Million barrels*	*Million barrels*			
1937	13,063	289	13,352	1,288	10.14	0.23	10.37
1938	15,507	320	15,827	1,270	12.21	.25	12.46
1939	17,348	291	17,639	1,335	12.99	.22	13.21
1940	18,483	253	18,736	1,373	13.46	.18	13.64
1941	19,025	277	19,302	1,472	12.92	.19	13.11
1942	19,589	258	19,847	1,411	13.88	.18	14.06
1943	20,083	246	20,329	1,513	13.27	.16	13.43
1944	20,064	250	20,314	1,745	11.50	.14	11.64
1945	20,453	227	20,680	1,792	11.41	.13	11.54
1946	19,942	223	20,165	1,813	11.00	.12	11.12
1947	20,874	230	21,104	1,954	10.68	.12	10.80
1948	21,488	231	21,719	2,123	10.12	.11	10.23
1949	23,280	256	23,536	1,999	11.65	.13	11.78
1950	24,649	253	24,902	2,157	11.43	.11	11.54
1951	25,268	248	25,516	2,419	10.45	.10	10.55
1952	27,468	256	27,724	2,485	11.05	.10	11.15
1953	27,961	272	28,233	2,530	11.05	.11	11.16

Source: Proved reserves from American Petroleum Institute. All other data from U. S. Bureau of Mines except years' supply calculated by IPAA.

Mr. BROWN. You will notice we have been carrying from 10 to 14 years' supply. The first figures beginning in 1937 show the underground reserves, the second column the aboveground stocks, and then the total is carried in the third column. It shows that we now have some 28,233 million. We have set out opposite that the total demand for the year. Then there are the proved reserves, leaving the amount of stocks as a very small part, the aboveground stocks, of our total inventory, which shows that our current inventory of 11.16 years' supply is not out of line and is pretty well in line with the total experience of the industry.

This table shows that the crude-oil industry's real inventory position is not high in relation to demand. In fact, as compared with prewar years, it is low and should be increased to provide adequate reserves for emergency needs.

The total domestic and export demand for petroleum during 1953 is expected to average about 8 million barrels a day. The productive capacity of the domestic industry is approximately equal to this demand. Due to imports of about 1 million barrels daily, the domestic industry has a shutin or idle capacity of about 1 million barrels daily. Take away these imports through war, expropriation, needs in other parts of the world, or any other cause, and this Nation has no reserve productive capacity. The balance between this country's domestic oil supply and demand is very close. This fact is well known in industry and in Government.

The vital importance of expanding our Nation's oil supply is widely recognized. The following excerpt from a report of a top defense agency shows the concern with regard to our petroleum supplies. This report by the Defense Production Administration was dated September 1952 and released in January 1953.

(The excerpt referred to follows:)

[Excerpt and reprint from Background for Defense]

EXPANDING OUR INDUSTRIAL MIGHT—THE BUILDUP OF UNITED STATES INDUSTRIAL CAPACITY—WE MUST HAVE ONE-FIFTH MORE OIL

The machines of peace and war run on petroleum A program to expand American industry substantially and keep it operating at top capacity requires constantly increasing quantities for fuel for lubricants, and for the many chemicals that are made from petroleum—everything from toluene for TNT to wax for packagings. Greater industrial activity and peak levels of employment demand more and more gasoline for airplanes, automobiles, trucks, tractors, and buses, and more diesel fuel for locomotives.

The defense program will by 1953 boost our petroleum needs to some 8,200,000 barrels a day as contrasted with the 6,800,000 barrels a day used in 1950—a better than 20 percent increase.

If we are to meet the needs, we shall have to drill more wells each year than ever before in our history. We shall have to expand the refineries where crude petroleum is made into gasoline and fuel oil and the other finished petroleum products. We shall have to enlarge our transportation facilities to move the crude petroleum to the refineries and the finished products to consumers.

In 1953 alone the domestic petroleum industry hopes to drill 55,000 wells to increase the Nation's ability to produce crude petroleum by about 18 percent above the 1950 capacity. Refining capacity will be expanded to keep step so that by the end of 1953 the Nation's refinery capacity should be about 125 billion gallons anually. Pipelines, tankers, railroad tank cars, barges, and truck transports will have to be increased proportionately.

This expansion calls for huge amounts of critical materials. Some 2,200,000 tons of steel were allocated for the petroleum program during the third and fourth quarters of 1951 combined. Some 2,500,000 tons were allotted for the first and second quarters of 1952 combined, and requirements are going up from that point. In 1953 nearly 7 million tons of steel, more than 7 million pounds of aluminum, and about 40 million pounds of copper will be required for the domestic petroleum industry if expansion goals are to be met.

They conclude with this:

"In our homes, our industry, our transportation, and our defense * * * we depend upon petroleum products to provide well over half the heat and energy needed to support our social and economic structure."

Mr. BROWN. We have reproduced that page from the report, together with the two covering pages, so that we would be sure of carrying faithfully just what the department said.

I would like to read their own language:

The machines of peace and war run on petroleum. A program to expand American industry substantially and keep it operating at top capacity requires constantly increasing quantities for fuel, for lubricants, and for the many chemicals that are made from petroleum—everything from toluene for TNT to wax for packagings. Greater industrial activity and peak levels of employment demand more and more gasoline for airplanes, automobiles, trucks, tractors, and buses, and more diesel fuel for locomotives.

The defense program will by 1953 boost our petroleum needs to some 8.2 million barrels a day as contrasted with the 6.8 million barrels a day used in 1950—a better than 20 percent increase.

If we are to meet the needs, we shall have to drill more wells each year than ever before in our history. We shall have to expand the refineries where crude petroleum is made into gasoline and fuel oil and the other finished petroleum products. We shall have to enlarge our transportation facilities to move the crude petroleum to the refineries and the finished products to consumers.

In 1953 alone the domestic petroleum industry hopes to drill 55,000 wells to increase the Nation's ability to produce crude petroleum by about 18 percent above the 1950 capacity. Refining capacity will be expanded to keep step so that by the end of 1953 the Nation's refinery capacity should be about 125 billion gallons annually. Pipelines, tankers, railroad tank cars, barges, and truck transports will have to be increased proportionately.

This expansion calls for huge amounts of critical materials. Some 2.2 million tons of steel were allocated for the petroleum program during the third and

fourth quarters of 1951 combined. Some 2.5 million tons were allotted for the first and second quarters of 1952 combined, and requirements are going up from that point. In 1953 nearly 7 million tons of steel, more than 7 million pounds of aluminum, and about 40 million pounds of copper will be required for the domestic petroleum industry if expansion goals are to be met.

They conclude with this:

In our homes, our industry, our transportation, and our defense * * * we depend upon petroleum products to provide well over half the heat and energy needed to support our social and economic structure.

I quote from that to show the problems that the producers had before them.

If the petroleum-producing industry is to enlarge its activities and operations in keeping with national oil needs, there must be a continuing expansion of oil exploration and development within the United States. It is an unfortune fact that drilling activity in this country is inadequate to meet these requirements. Defense authorities have called upon the industry to increase its drilling operations far beyond present levels. Experience clearly demonstrates that the industry is capable of this expansion, given adequate materials and a proper economic climate.

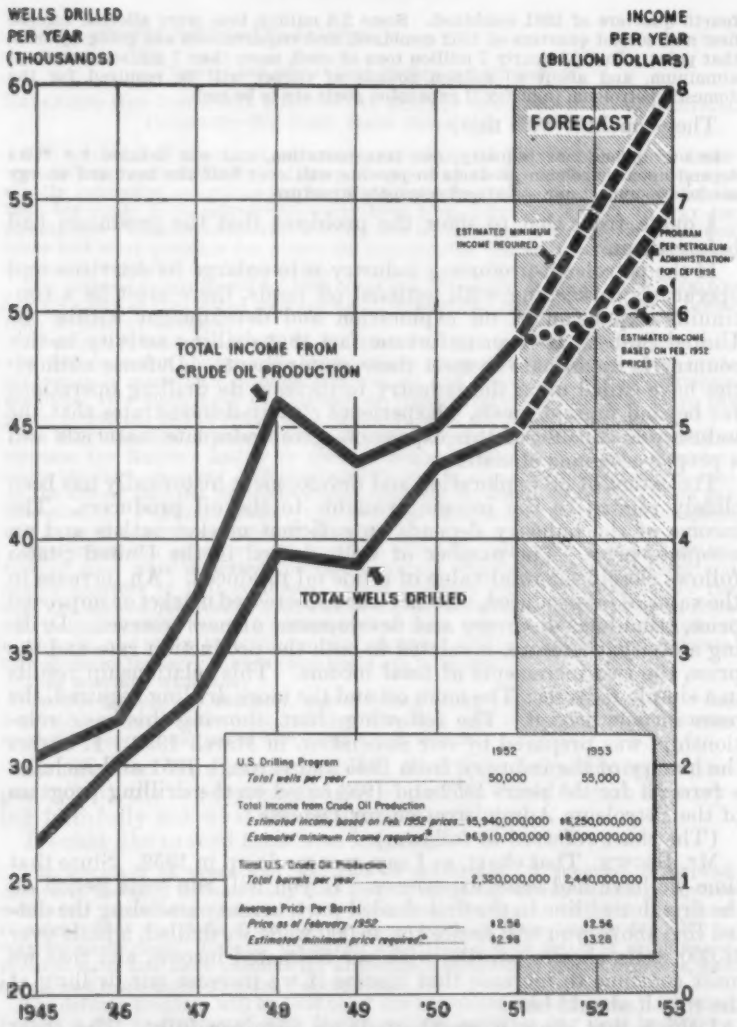
The extent of oil exploration and development historically has been closely related to the income available to the oil producers. The income of the industry depends on sufficient market outlets and an adequate price. The number of wells drilled in the United States follows closely the total value of crude oil produced. An increase in the value of oil produced, whether due to increased market or improved price, stimulates discovery and development of new reserves. Drilling activity, therefore, is related to both the production rate and the price, the two increments of total income. This relationship results in a simple formula: The more oil and the more drilling required, the more income needed. The following chart, showing this basic relationship, was prepared by our association in March 1952. It covers the history of the industry from 1945 and through 1951 and includes a forecast for the years 1952 and 1953 based on the drilling program of the Petroleum Administration for Defense.

(The chart referred to follows:)

Mr. BROWN. That chart, as I say, was made up in 1952. Since that time we have had some experience. If you will run your pencil on the first dotted line in the first shaded part, across paralleling the dotted line above, you will notice the 46,000 wells we drilled, a little over 46,000 wells, show a parallel with our estimated income, and that we must continue to increase that income if we increase our drilling at the rate it should be.

I think that chart is worth studying very carefully. The chart shown is not an exact measurement of future requirements. It is a projection of industry experience. It indicates more funds required to accomplish the needed expansion and these funds must come from larger volume or increased price, or both. The forecast, prepared more than a year ago, has been substantiated by experience. The industry has not had sufficient funds and has been unable to accomplish the defense goals.

In other words, in 1950 the defense goal was some 50,000 wells and we only drilled some 46,000. Price is a matter over which the domestic producer has no control as he does not fix the price received for



	1952	1953
U.S. Drilling Program		
Total wells per year	50,000	55,000
Total Income from Crude Oil Production		
Estimated income based on Feb. 1952 prices	$5,940,000,000	$6,250,000,000
*Estimated minimum income required**	$6,910,000,000	$8,000,000,000
Total U.S. Crude Oil Production		
Total barrels per year	2,320,000,000	2,440,000,000
Average Price Per Barrel		
Price as of February 1952	$2.56	$2.56
*Estimated minimum price required**	$2.98	$3.28

his product. That is the function of a competitive economy. Whatever it takes to accomplish the defense expansion should be done. Competition in an industry of adequate supply will avoid unreasonable prices.

The industry must have adequate materials, sufficient manpower and the freedom to make competitive adjustments through which the funds required for expansion are generated. With this problem, the industry has a history of accomplishment and experience in making needed price adjustments to increase supply restrained by the forces of competition within the industry. Operating under this system, the

domestic oil producing industry has never failed to provide ample supplies for all needs at reasonable prices.

The recent increase in crude oil prices is fully justified by any standard that can be applied. It is essential to the future welfare of the oil-consuming public and our national security which depends, in such large measure, upon the assurance of increasing an ample supplies of petroleum and its products.

Mr. Chairman, that concludes my statement.

The CHAIRMAN. Are there any questions, gentlemen?

Mr. PELLY. Mr. Chairman?

The CHAIRMAN. Mr. Pelly?

Mr. PELLY. Mr. Brown, in your testimony you noted that the cost per barrel of oil had gone up, as I recall, from the period 1947 to 1949, to date, to 1953, some 75 to 80 cents a barrel.

Mr. BROWN. That is right.

Mr. PELLY. During that same period, has there been any processes, catalytic processes, which increased the return on a barrel of oil? I know that the production of gasoline from one barrel of oil is up about a third over what it used to be. But what period represents that?

Mr. BROWN. Whatever that is does not come to the producer. Our entire income comes from the sale of the crude oil. So whatever advantage they have, that is in the matter of refined product prices.

Mr. PELLY. I agree with you, but I think it is more valuable to the person who buys if they can get, say 14 more gallons of gas out of a barrel of oil than they could previously. Then it is worth that much more.

Mr. BROWN. Yes. And also I think the refiners have been able to increase the value, I mean the performance of a gallon of gasoline has been increased considerably. That is right.

Mr. PELLY. Do you happen to know when the new processes were brought into the refining industry?

Mr. BROWN. I think that has been rather gradual. It has been more pronounced, I would say, within the past 10 years. But it has been a gradual development of it. They have made some considerable advances, yes, in the technical production.

Mr. PELLY. Mr. Brown, I have been concerned from the testimony in my own mind as to the amount that should go into the expansion, and finding new sources of oil, which should come from the investor, venture capital, as against the consumer. In other words, the testimony that we have heard before this committee has indicated the great need for funds to expand, and the thought that that probably should come out of the sale of the product. I have thought that possibly if some of the companies had paid a larger share of their earnings out in dividends that they would have found a much more ready market for funds, either in the way of new stock or some other way. I think the testimony has indicated to me that maybe the consumer is thinking that.

Mr. BROWN. I think that is true, if they were paying higher dividends they would attract new capital. But they are confronted with the problem of staying in business, and they have to plow it back in or they will go out of business.

Mr. PELLY. The whole market for the product has gone up so, and our whole need for petroleum products, that there does not seem to be

enough capital in the existing companies to provide for that expansion, unless a great deal comes out of either profits or revenues. All the oil companies have had to hold back a great deal of their profits; that is, instead of paying them to their stockholders, to expand. I don't know what is fair.

Mr. BROWN. I guess they are confronted with the difficulty there that if they pay out too much in dividends they will weaken their company's position. I know that is what would happen in a producing company. If we did not continually find more oil we would be just liquidating our company. I don't know how that applies as to refining and marketing, but know in the production we have to spend an awful lot of our money to find more oil. So we have to encourage, as you say, the risk capital as much as we can; that is true. But to get that we have to show that we are operating on a sound basis and are staying in business. Nobody is going to come in and buy our stock if we are not finding new oil.

Mr. PELLY. What you are trying to say is that your depletion allowance is not sufficient to provide for getting new sources of oil?

Mr. BROWN. I think that is true, yes.

Mr. PELLY. And therefore, by raising the price you are turning to the consumer to provide funds for that purpose; is that right?

Mr. BROWN. I think you would have to. You would have to get it from some source. When you get a dollar, the amount you can retain, either in taxes or in profits is what you get to go back in to find more.

Mr. PELLY. My perplexity is whether you should turn to the investor and get more venture capital.

Mr. BROWN. We try constantly to go to the investor, and we find we are having to borrow more money now than we have generally. We would like to get more investment, but the only way you can get an investor is when he sees a chance of a return. There is a hazard in the operation of the production that discourages the normal investor. So we have to encourage the fellow that knows the oil industry, and who has stock in there, to be willing to put more of his stock money back into it to find more oil. He is likely more familiar with the hazards we take than some stranger outside.

Mr. PELLY. I have not seen any of the profit and loss statements of witnesses that we have heard so far that would discourage anybody from investing when they show earnings up to, say, 12 or 15 percent. But they have not been getting much in the way of dividends.

Mr. BROWN. It may sound strange if that fact is developed, but money is pretty smart as a rule. I mean it is held by pretty smart people. My experience is if there is some place where that money brings a big return, it will flow into that industry pretty fast. If this was an industry that was making a lot of money through any process, through its depletion or through any other, then capital would be flowing into this and out of other industries. We do not find that is the experience.

Mr. PELLY. I think we are concerned about the consumer having to provide that.

Mr. BROWN. I appreciate that, and of course that is the concern of all of us. We can not stay in business if we do not please the consumer eventually, because he is our ballot box, if you know what I mean.

Mr. DEROUNIAN. Will the gentleman yield?

Mr. PELLY. Yes.

Mr. DEROUNIAN. Mr. Brown, you state you want to please the consumer or else you would be out of business. What could the consumer do if he did not want to pay your price?

Mr. BROWN. I think the thing he wants most is an assured supply. Then he can determine whether he can afford to buy. But he certainly would not be in a very favorable position if he were not getting the supply. So he must recognize that when he goes to buy anything he has to pay enough for that to justify its production. I think we all recognize that. We cannot just produce to please the consumer, as much as we want to, unless we have money with which to do it. We have to get the money to maintain our business.

Mr. DEROUNIAN. How long do you think these price increases can continue without jeopardizing the consumer to the point where somebody will come up with something to replace business and then you will all be out of business?

Mr. BROWN. That is a constant concern of ours, that we do not price ourselves out of the market. I do not think there is anything in our industry that would show that. Here is an industry that has gone alonge for 5 years when everything else was going up, and did not increase a nickel. That would not reflect a very bad record when everybody was paying more. I pay more for my toothpaste and almost everything I buy, even reading papers, and so on, than I ever did before. And yet the industry that is producing oil did not get a nickel of it for 5 years.

Mr. PELLY. The argument that the depletion allowance is not sufficient to replace the reserves of oils that you need would indicate that, to me at least, some remedy or relief should come from that source rather than from the consumer.

Mr. BROWN. That is a matter for a legislative thinking that I am not sure I have a very sound opinion on. I know this, that whatever we keep out and don't have to pay out in a tax is that much more available for our use. Depletion is in every business operation in some form or other. In some cases it is depreciation and sometimes depletion. Our present structure is one that has been in there for 26 or 28 years. It is kind of a base from which we operated. If you cut that, you would have to raise your price. If you increase the depletion, I think you could have a lower price. But, you see, we don't do that. That is a legislative program. We agree with you that if we had a larger depletion we would have less need for price.

Mr. PELLY. You would have to justify any change in the depletion rate on the basis of experience.

Mr. BROWN. That is right.

Mr. PELLY. You tell us your experience is such that you should have more, and if you could justify that statement maybe you could get it.

Mr. BROWN. I think we have much evidence to justify a larger allowance.

Mr. PELLY. This investigation of the recent price increase has been very revealing to me because it has shown that the entire world has been affected by it. In Europe the refineries have raised their price of gas, even though in general their sources of petroleum have not increased prices.

The price increase in crude in this country is a very serious thing in the way of inflation and the general effect on the economy of the world.

Mr. BROWN. That is true, and that is true of all of our prices. I mean, steel prices affect everybody in the world. It has affected us very seriously for years. We have been able to get no relief from it. There have been several increases in steel, which we use very greatly, but we could not do anything about it.

Europe, of course, in many places has almost priced itself out of gasoline in the market, because the prices there run as high as 75 cents a gallon. Those prices just scare you to death. They would me, if I was driving there. I would hate to see it happen here.

Mr. PELLY. If you felt that all of the normal pressures of the law of supply and demand and free market existed, then you would not be so concerned. But sometimes when you realize there are tremendous sources of oil, foreign sources, that could come in, maybe, and affect prices here, our own conservation methods that affect it, it just makes one stop and think.

Mr. BROWN. Our conservation methods have been a very valuable contribution to the consumer. They have provided more oil than we ever could have hoped to get if they had not applied.

Mr. PELLY. I notice that all of the producers in this country, particularly in certain areas, seem to feel that way very strongly.

Mr. BROWN. I think that is easily established. Besides, it recognizes the peculiarities of oil production. It is entirely different to anything else. If we did not have conservation laws that were pretty well established in the courts, some one man might very well go out and get all of our oil out of the adjoining property, because of the fugacious character of the oil, it flows around. It will move from under one property to another. So sometimes the courts and the lawmaking bodies had to step in and they did it through the conservation laws. I think it has been very helpful.

Mr. PELLY. Thank you.

The CHAIRMAN. Mr. Rogers.

Mr. ROGERS. Mr. Brown, I just want to compliment you on the statement you have made to the committee. It shows you have really made a study of it and have obtained a lot of information. I have 2 or 3 questions I wish to ask you.

What is the proportion of increase in the price of crude oil as compared to other materials that you have to use, like steel, magnesium, and other materials? Have you figured that?

Mr. BROWN. This last increase was something like 10 percent, as to oil.

Mr. ROGERS. Is that to all of the materials?

Mr. BROWN. As to oil. And our other materials run about 40 percent, those that we are using.

Mr. ROGERS. I notice in your statement you say, speaking of the expansion, this expansion calls for huge amounts of critical materials. Some 2,300,000 tons of steel were allocated for the petroleum program during the third and fourth quarters of 1951 combined. Some 2,500,000 tons were allocated from the first and second quarters of 1952 combined, and the requirements are going up from that point.

In 1953, nearly 7 million tons of steel, more than 7 million pounds of aluminum, and about 40,000 pounds of copper will be required for the domestic petroleum industry if the expansion goals are to be made.

What increase in cost in these materials would there be as compared to the small increase of 25 cents per barrel on petroleum?

Mr. BROWN. Of course, those items on the whole have gone up between 30 and 40 percent in cost. So with the increased volume, it enters very substantially into our production, if that is what you are talking about. Our present price increase is only a fourth, we will say, of the increase of products we use.

Mr. ROGERS. In other words, it is your contention that the increase in the price of crude oil has not been commensurate with the increase in all other materials?

Mr. BROWN. That is true.

Mr. ROGERS. Including labor?

Mr. BROWN. That is right.

Mr. PRIEST. Will the gentleman from Florida yield for one question?

Mr. ROGERS. Yes.

Mr. PRIEST. Mr. Brown, I notice exhibit A, which is a report on cost studies. There is, I believe, a figure applying to Humble Oil & Refining Co. But I wanted to check with you as to how that figure might be representative of the industry as a whole. The figure I have in mind is a cost of 36.4 percent of total drilling costs went for dry holes. That is for that one company alone. Is that a rather average figure for the industry as a whole, or is it higher or lower?

Mr. BROWN. I would say that that is very representative except that that is an unusually capably operated concern. I would say that the average would be higher than theirs.

Mr. PRIEST. Than the 36.4?

Mr. BROWN. That is right.

Mr. PRIEST. I thank the gentleman from Florida for yielding.

The CHAIRMAN. Mr. Schenck?

Mr. SCHENCK. Mr. Brown, I have just a couple of short questions. We have been hearing a lot about the possibility of production of oil from offshore submerged lands. It is more expensive to produce oil from that kind of an area?

Mr. BROWN. Yes. It will be considerably more expensive. The compensating value may turn up—we have not had enough experience yet to say—the compensating feature of that may be that we will find it in volume that will compensate for the expense of per well cost. But so far, our experience has been that that is more expensive, even per barrel or on any basis we use, than the onshore development.

Mr. SCHENCK. Is it more difficult to locate?

Mr. BROWN. It is more difficult to locate, and it is certainly more difficult to operate, as you can appreciate drilling out in water where the waves are heavy and storms are great.

Mr. SCHENCK. Have you had any studies which indicated that there is more or less oil seaward from the historic boundary?

Mr. BROWN. Our general conclusions on that are that there is nothing to indicate any more, or probably any less. It is just a formation that was created before the water was put there, and the water has nothing to do with it. I would say that about the best way to picture that in your own mind would be to take a map of

the surrounding country and take a similar map and fold it over, and you would probably find as much oil out in the water as you found inshore. Do you see what I mean? I think that is about the best way to appraise that. There is nothing to indicate the presence of more oil out there than there was in the interior.

Mr. SCHENCK. Have your studies indicated that the production or securing of oil from those areas, seaward, is important enough to spend some time, effort, and money in developing?

Mr. BROWN. I don't think there is any doubt about that. In my judgment, the nation that controls the oil supply sufficient and adequate to its requirements is the nation that will succeed in the next foreseeable future. Therefore, what expense is necessary ought to be expected and contemplated because it is very small in comparison with the value we get out of it in the increment in our industrial activity and our security.

Mr. SCHENCK. So you would feel that the development of those areas is a necessary thing from our point of view, both economic and defensively?

Mr. BROWN. By all means I would say so, sir.

Mr. SCHENCK. Now, Mr. Brown, Mr. Rogers asked a question along the lines of percentage of increase of crude oil as compared to the percentage of increase of other items that go into the production of oil. You indicated the percentage increase of crude oil was about 10 percent and the other was about 30 to 40 percent.

Mr. BROWN. That is right.

Mr. SCHENCK. Is that difference in percentage offset by the total dollar value of the oil produced?

Mr. BROWN. I am not sure that I quite understand that.

Mr. SCHENCK. You produced a certain volume of crude oil at an increase of 25 cents per barrel. Does that 10-percent increase in the value of crude oil more than offset or less than offset the 30 or 40 percent increase in the steel and other things you have to use?

Mr. BROWN. So far it has less than offset. But volume has a lot to do with it. What we need is the volume of money.

Mr. SCHENCK. Thank you very much. I think you should be very highly complimented and commended on this very complete report. Thank you very much, Mr. Chairman.

Mr. HARRIS. Mr. Chairman?

The CHAIRMAN. Mr. Harris.

Mr. HARRIS. Mr. Brown, I too want to compliment you on the very fine statement you have made, and the splendid exhibits which you have included in your statement, which give, I think, a very true picture of the problem. I did want to comment on one problem that my colleague, Mr. Pelly, brought up a moment ago, and that is with reference to advancement in techniques in refining crude oil. As I understood, you might not be able to obtain more of one product than another out of a barrel of oil, which would give to the refineries additional return. The fact is, refiners can, to a certain degree, reduce or increase the product they get out of a barrel of crude oil in accordance with the demands they have for their particular product, is that right?

Mr. BROWN. That is right.

Mr. HARRIS. For instance, they may have a greater demand for gasoline this week than they would have for some other products,

and they would adjust their refining runs or cuts to meet that demand.

Mr. BROWN. That is often done.

Mr. HARRIS. Maybe at another time they would have a greater demand for some other product, residuals, for instance, or maybe certain oils, and certain other products. So the refineries must readjust their operation so they get out of a barrel of oil, insofar as possible, that product that meets their requirements; that is, the demands they have for the particular product.

Mr. BROWN. That is right. They can do that.

Mr. PELLY. I appreciate my colleague's point. He is always giving me a good education on some matter that comes before this committee.

Mr. HARRIS. Mr. Chairman, that is all, thank you.

Mr. HALE (presiding). Mr. Heselton?

Mr. HESELTON. Mr. Brown, now that we have the tidelands issue into the hearing, do you think the added cost of drilling in the tidelands may have been an added factor in deciding to increase the price of the products?

Mr. BROWN. I don't think so.

Mr. HESELTON. You do not.

Mr. BROWN. No.

Mr. HESELTON. You are not sure of it?

Mr. BROWN. No.

Mr. HESELTON. I notice in your statement that you made this rather interesting observation: "Price is a matter over which the domestic producer has no control, as he does not fix the price received for his product."

What makes him so helpless about all of that?

Mr. BROWN. He is entirely dependent upon a market outlet, and he cannot hold his oil unless he just closes down his wells.

Mr. HESELTON. He fixes it in the first instance, does he not?

Mr. BROWN. No.

Mr. HESELTON. Who does?

Mr. BROWN. The fellow that buys it.

Mr. HESELTON. The fellow that buys fixes it? That would be very interesting news to the purchasers of crude oil.

Mr. BROWN. Our oil is sold on a posted price base at the well.

Mr. HESELTON. Then you also said "Taking into account all the factors of increased costs, the committee—" and that is the cost study committee of the IPAA—"determined that the national average additional cost of finding, developing, and producing crude petroleum in 1952 was between 70 and 80 cents per barrel over the period 1947–49." Then you say, "The recent increase of about 25 cents per barrel in the price of crude petroleum is moderate in relation to this increase in cost."

Do you mean to suggest that the price will be increased, again, and probably in the area of up to 75 or 80 cents?

Mr. BROWN. I don't think that necessarily follows. As I have pointed out all through my statement, our operations are dependent upon the total volume of money we get, and we get that money in two ways, one in the price per barrel and the other in the volume of barrels sold. It might be there are compensating factors in there that time only will tell. That is why I think price adjustments ought to come along gradually until you find price is performing its production and then it can stop. That has been the history in production.

Mr. HESELTON. We have had some testimony, and I think you have confirmed it, that the basic question now is whether this increase will stick, to use the language of the witnesses. In some instances apparently it has not stuck. It has been decreased. Have you any personal opinion as to whether this in the overall will stick?

Mr. BROWN. I would say that every economic and security factor that could be involved in this would say that it would stick. I know of no reason why it should not stick.

Mr. HESELTON. Apparently Atlantic, up in Pennsylvania and Delaware, disagree with you on one phase of it, anyway.

Mr. BROWN. We have disagreed in the past, and might again.

Mr. HESELTON. I have here a short quotation from the Middle States Petroleum Corp. I think you will find that you quoted their annual statement in your exhibit. It is to this effect: "There appears the first evidence that these added costs are being absorbed and compensated for by increasing production, earnings and reserves."

Is that an extraordinary position for one of the companies to take?

Mr. BROWN. No, they may have had some peculiar—that is why I say you have to take this industrywide, because some one company may be fortunate in their discovery or in a production program so that their added costs are very quickly absorbed, because of their added volume. That is why I say we get our money in two ways: One company may get it all out of unit price and the other cannot get any additional volume because he cannot increase his volume. They may have been in that position. It could be.

Mr. HESELTON. By the way, did you supply the tariff commission with data on costs of producing oil in its hearings in 1951?

Mr. BROWN. I think we did.

Mr. HESELTON. Could that be made available to the committee?

Mr. BROWN. Whatever we have we will be glad to give you, I am sure.

Mr. HESELTON. I have been interested in reading your testimony of last May 11 before the House Ways and Means Committee. On page 932 of the printed hearings, you said this:

> Apart from the security considerations, we question the wisdom of a policy under which a larger and larger part of the oil supply for the American public would be under the control of a few worldwide companies. No one should be misled into believing that reliance on a few companies rather than a competitive domestic industry will mean lower prices to the consumer.

You then cite some figures to the effect that while residual fuel oil prices may have gone down, gasoline and home heating oil in the New York market, where there have been these heavy imports, have gone up, and say:

> It is obvious from these figures that the large increase in imports has not benefited the average motorist and homeowner. In fact, one of the largest importing companies recently attempted to increase gasoline prices in New York and New England still further. In the long run, the consumer will suffer as he always does when supply is controlled by a few.

Will you tell us what you meant by your statement: "The supply is controlled by a few"?

Mr. BROWN. What I was pointing out there was the danger of relying upon imports. The total imports are in the hands, we will say, of about seven companies. They own about 95 percent of it. I just don't believe it is good government to require consumers to be entirely

dependent upon a group that is capable of being closely organized. Whether they are or not, I don't know.

Mr. HESELTON. Do you mean Standard Oil of New Jersey, Socony-Vacuum, Gulf, Standard of California, Texas, Shell, and Royal Dutch Shell, and Anglo Iranian?

Mr. BROWN. That is right.

Mr. HESELTON. Again, on page 934, you said: "Even with voluntary action on costs," that is to control imports, "is it wise and is it good government to leave a matter so important to the Nation's welfare and security in the hands of a few people no matter who they may be?"

Are you referring to the same people, the same companies?

Mr. BROWN. Yes; that is right.

Mr. HESELTON. On page 939 you had this to say:

> The domestic-oil industry, as well as the States in which oil is produced, are now experiencing a very definite type of Federal control. Men in importing companies supported by men who administer the trade-agreements program, without definite rules or regulations, control petroleum imports. This is Federal control in the worst and most repugnant form. These men and these imports control every program of production and every person or company producing oil in the United States. By such power they determine the market outlet and the price of every barrel of oil produced in the United States.

It looks after the 2 weeks of hearings we have had that might be a very significant statement as to who actually does set the price of oil. Tying it in with what you have just testified to, I assume your contention is still that these people set the price of oil.

Mr. BROWN. I think as long as the gates for imports are left wide open, with the vast volume of oil there is outside of the United States, that those seven companies will determine what we pay for oil here.

Mr. HESELTON. Who did you mean by the people in the administration?

Mr. BROWN. I meant the State Department.

Mr. HESELTON. I would like to get a little more clearly how you think they determine the price of every barrel of oil.

Mr. BROWN. Well, by the opening and closing of the valve at the port of entry.

Mr. HESELTON. All right. You testified as to your opinion of the effect that the conservation practices administered by the several State agencies has on the supply of oil. I think yesterday I noticed a news item that the companies had nominated, I think that is the word they used, so much oil before the Texas Commission, and that it was substantially below the existing level of production. Is that not in the same category as your control over imports?

Mr. BROWN. No, not exactly, because if there is a definite amount beyond which they cannot import, then competition sets in in the domestic demand for an oil, and all of the little refineries scattered throughout the country, and there are many of them, and very helpful and very effective, they go in and bid for this oil. But if their market is cut off by the threat of too much coming in in hands of their competitors, then they will not go in and bid for that.

Mr. HESELTON. Your suggestion is that the supply of oil, wherever it comes from, domestically or from imports, should be kept in such balance that the price will not be unsettled, that there will not be a drop in price. Is that it?

Mr. BROWN. No; I think what I am trying to say there is if we are to maintain an industry you cannot maintain an industry by one day

having a decent price and the next day dropping clear out, and the next day getting an excessive price. You ought to have some reasonable base on which the man who invests his money has some reasonable assurance of return, or else he will not invest it. That is what I am trying to say, that it should not be subject to the fluctuations or whims of someone, but should be based on its value and its costs.

Mr. HESELTON. But when you place that emphasis on the control of imports, in terms of price here in this country, and I am using your own words, how can you consistently say that the domestic production is not primarily related to the market demand without any particular reference to international production?

Mr. BROWN. Well, the domestic production—of course any control has some effect on price. I do not think we ought to try to hide that. Unless that is justified, then it ought to be criticized. But if it is justified on other conditions, then that control would be well supported and justified.

Mr. HESELTON. Do you mean, Mr. Brown, that the activities of these few concerns determine the price of oil in the United States are carried out here in violation of the antitrust laws?

Mr. BROWN. I am not saying that because I don't know.

Mr. HESELTON. Would you say that these activities that are carried on outside the United States are in contravention of our laws?

Mr. BROWN. I think we have been rather liberal in providing laws for our companies working abroad to compete under the conditions of other countries. I think we have liberalized our antitrust laws to provide that. I would doubt if it does; I don't know but I would doubt it.

Mr. HESELTON. You were quoted in the press, I understand, as having stated on June 15, with reference to the 25-cent advance in crude-oil price as follows: "Undoubtedly it will lessen the pressure for immediate legislative action on imports."

What did you mean by that?

Mr. BROWN. I meant the pressure for limitation of imports was based on the economic condition of requiring either more market outlets or a better price. If a man is on the border where 25 cents would put him back so his company could continue to operate, then he would quit hollering so much about imports. It seemed a perfectly natural thing to me. I assumed to those fellows if 25 cents represented all they needed, they would quit worrying about imports, and I think that is true, I think that always happens.

Mr. HESELTON. In spite of that fact, the bill was reported.

Mr. BROWN. I think there was plenty more to justify that.

Mr. HESELTON. On July 7, following the testimony in our hearings as to the economic effect of lower Middle East crude making possible potentially large imports into this country, you were quoted also to the effect that the only recourse left to the domestic operators was a "sane restriction on imports."

Mr. BROWN. That is correct.

Mr. HESELTON. Why was there a change between June 15 and July 7?

Mr. BROWN. There wasn't a change, was there? I didn't recognize that as a change.

Mr. HESELTON. Well, first you said that the pressure was let up, and then you said you would have to have some sane restrictions on imports.

Mr. BROWN. I said it would be lessened. But I don't think that is the final answer to it. I think the reason it would be lessened is because the fellow's pain was less. His need for money was being better compensated for and he naturally would not exercise so much feeling. But I think I said that that would not remove the cause. I believe I said that right along with the other statement.

Mr. HESELTON. You may well have, I am not sure.

Mr. BROWN. I think I did.

Mr. HESELTON. You do not see any significance in the fact the bill was reported on the same afternoon that the price went up on Middle East crude?

Mr. BROWN. I would doubt if that has any significance.

Mr. HESELTON. You do not know of any?

Mr. BROWN. No; I don't know, but I would doubt it.

Mr. HESELTON. Finally, I would like to have you comment, if you have not included it in your exhibits, on this following short excerpt from the Sinclair statement:

> Under the new administration elected last November, a substantial reversal of Government policy toward business is taking place. The order of the day appears to be widespread decontrol and maintenance of minimum controls in order that free enterprise shall have maximum opportunity to build a sound business economy. The realization of this opportunity is something which a substantial portion of business has sought for some time. It must be recognized, however, the opportunity carries with it grave responsibilities and obligations, if the new policy is to work under present-day conditions. It is my belief that one of the most important factors to be weighed in predicting the future is the manner in which it is reasonable to expect these responsibilities and obligations will be performed.

I realize the sincerity with which you presented your statement to the committee, and the completeness of it. But can you in your own conscience square that price increase with that statement?

Mr. BROWN. I don't know what phase of that statement would be contrary to it. Where was I making that statement, do you say?

Mr. HESELTON. I beg your pardon?

Mr. BROWN. What reference did you make to my statement? I did not get it all and I would like to turn to it and read it, if I may.

Mr. HESELTON. I made reference to your statement as being very sincere and very complete.

Mr. BROWN. No; where were you quoting?

Mr. HESELTON. I am quoting an excerpt from what I understand to be the annual report of Sinclair. I don't know whether you included that in your statement or not.

Mr. BROWN. No; that is not in my statement, and I, of course, would not be in a position to rationalize some other company's point of view with mine. I think my statement was consistent and sound. It may not fit with their thinking. I have no means of reconciling them. That is something that they might look at. I can understand how they might understand things a little differently than what we would.

Mr. HESELTON. You certainly would not contend, would you, that this price increase at this time was a demonstration of the type of support that the administration is likely to receive from industry as a whole, and therefore to prevent any further inflation and to

increase the purchasing power of the dollar, cut out deficits, and so many other things?

Mr. BROWN. I can't see that that is inconsistent with supporting good, sound government, because I am quite sure this administration or any other would want industry to survive, and they would not want to maintain a condition that would destroy one of our basic industries.

Mr. HESELTON. In the last 5 years, has any major element of the oil industry gone into bankruptcy?

Mr. BROWN. None of the majors that I know of; no.

Mr. HESELTON. Has that been true in the last 20 years?

Mr. BROWN. Well, I don't know of any major company ever going into bankruptcy; no.

Mr. HESELTON. That is all, Mr. Chairman.

Mr. THORNBERRY. Mr. Chairman?

Mr. HALE. Mr. Thornberry.

Mr. THORNBERRY. He was asking you about major oil companies. He didn't ask you about a lot of the people you represent or the independent producers. I expect you know of a lot of people in the last few years who are independent producers who have had a little trouble.

Mr. BROWN. There have been quite a few.

Mr. THORNBERRY. There always seems to be a confusion here about the oil industry as being confined to a certain few companies. I think you made it clear here that particularly with reference to the exploration and production of oil, the industry is dependent a great deal upon a great number of people who in no way can compare with major oil companies; isn't that correct?

Mr. BROWN. That is true.

Mr. HESELTON. Would the gentleman yield to me on that point?

Mr. THORNBERRY. Surely. I will yield to you, Mr. Heselton.

Mr. HESELTON. I just want to call your attention to the point that I quoted from his testimony as to who controls the oil in this country.

Mr. THORNBERRY. Sure, but if you want to argue about that, Mr. Brown explained to you why he made the statement.

I was very much interested awhile ago in your statement in connection with the chart that you introduced into evidence as to what happened in the increase in crude-oil prices as related to the increase in all other prices, and particularly with reference to what Mr. Pelly asked you, and I think it was a very pertinent question. That is whether or not the oil industry is depending upon the consumer for the attraction of investment capital. From the chart and from the figures which you give to support the chart on the next few pages, I expect that the oil industry in comparison with the steel industry has relied less upon prices received from the consumer than the other major industries have.

Mr. BROWN. I think that is true.

Mr. THORNBERRY. Yesterday a statement was made—an inference was made—that the cost to defense was affected materially by the increase in crude oil. Of course, since the Defense Department is a large purchaser of crude oil, and, as you have indicated, crude oil being important to the national defense, any increase in the price of crude oil

will affect national defense. But I would say from the chart and from the figures which you have shown here, which are not contradicted anywhere, that the increase in prices of steel from the time that you indicate, from 1947 to the present, have very definitely affected the price of defense.

Mr. BROWN. That certainly is true.

Mr. THORNBERRY. And has affected the cost of production of oil.

Mr. BROWN. That is right.

Mr. THORNBERRY. That is all, Mr. Chairman.

Mr. HALE. Mr. Younger?

Mr. YOUNGER. I just have two questions, Mr. Brown. As long as they brought in the oil question on the Continental Shelf, have you seen any informed opinion expressed anywhere, or heard of an informed opinion as to the reserve on the Continental Shelf?

Mr. BROWN. In a general way. I have never been able to get it down where I thought we could rely on it too much, but I have had some fairly good informed opinions on it. As to the total I am not sure. We do have this, a council report on that very question, which I would be very glad to submit to you. That was studied by the National Petroleum Council. They show the amount of production we can expect during the next 3 years, from offshore, and the possible reserves. They don't go into that specifically, but I think it might be helpful and we would be glad to furnish it to you.

Mr. YOUNGER. I would like to see that, because a number of times people keep talking about $300 billion worth of oil. So far as I know, that figure is just taken out of the air somewhere and has no value so far as statistics go.

Mr. BROWN. I think you are correct on that. I think the figures that were used, some of them, were rather loosely used and I have never been able to support them. We will be glad to give you that, and I think it might be helpful.

Mr. YOUNGER. I think it might be well to include that in the record.

One other question: You represent the crude-oil producers?

Mr. BROWN. Some of them.

Mr. YOUNGER. Well, some of them. In your opinion, is an increase of 25 cents a barrel more advantageous, financially, to just the producer of the crude oil or to the company that is integrated and produces oil and refines?

Mr. BROWN. I would say it is more advantageous to the producer. This is the first time he has gotten a price increase in years. He is very desperately in need of it. I think that goes right directly into his company operations. The producer and refiner, how the refiner will realize on any increase will, of course, depend on how his product prices reflect that cost. I assume it would reflect that cost in some form. I do not know to what extent.

Mr. YOUNGER. Well, I was wondering whether possibly a company that was integrated and had the refinery and had other methods of setting up tax matters might have advantage in a price more than would be the advantage to one who just produces and does not have the refinery items to possibly include in the tax.

Mr. BROWN. The mere fact that they have a varied operation cushions them sometimes. But I would doubt that any crude price such as this they would have any more advantage than the producer would.

Mr. YOUNGER. That is all, Mr. Chairman.

Mr. HALE. Are there any further questions?

If there are no further questions, we thank you very much, Mr. Brown. We are very glad to have your testimony.

The committee will stand adjourned.

(Whereupon, at 12 o'clock noon, the committee was recessed subject to call of the Chair.)

PETROLEUM STUDY

(Gasoline and Oil Price Increases)

THURSDAY, JULY 23, 1953

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE,
Washington, D. C.

The committee met at 10 a. m., pursuant to recess, in room 1334, House Office Building, Hon. Charles A. Wolverton, chairman of the committee, presiding.

The CHAIRMAN. The committee will come to order.

We had invited for appearance yesterday before the committee Mr. Sidney A. Swensrud, chairman of the Gulf Oil Corp., to explain the reasons which might have prompted that company's initiating the increase in the price of oil in the Middle East.

I am in receipt of a telegram from Mr. Swensrud expressing regret that a prior engagement scheduled in San Francisco on July 22 conflicted with the invitation for his appearance yesterday. Accordingly, we will hear from Mr. Swensrud at a later date. I wish to insert his telegram in the record at this time. I reads as follows:

HON. CHARLES A. WOLVERTON,
Chairman, House Interstate and Foreign Commerce Committee:

Your telegram of Saturday, July 18 inviting me to appear before your committee July 22 was telephoned to me at Los Angeles this morning. Some time ago I agreed to address meeting of Security Analysts Society of San Francisco on July 22, and in view other scheduled engagements on west coast do not plan return Pittsburgh until August 1. Regret it is impossible to accept your invitation to appear before your committee on July 22. We considered that our recently announced increase in kuwait crude-oil price was fully justified in view of the advances in crude-oil prices that had occurred in United States, Venezuela, and other producing areas and this price increase will have no effect on our import schedules. We followed advance in crude oil and product prices initiated by others in the United States which averaged less than 10 percent because we felt such advances were fully justified and long overdue in view of long-range supply and demand situation in United States, as well as steadily increasing costs in all phases of the oil business since the last general increase in oil prices over 5 years ago, including particularly the greatly increased cost and great difficulty involved in replacing with new discoveries the reserves being drawn from prolific fields discovered many years ago. Due to my schedule on west coast, which was arranged several weeks ago, it would be very difficult for me to appear before your committee before August 1. Would be glad to appear thereafter if you desire, but have endeavored to give our views rather fully above, thinking you might prefer this to a delayed appearance before your committee, and in the final analysis I doubt that I could add much to the information given above.

S. A. SWENSRUD,
Chairman of the Board, Gulf Oil Corp.

The telegram is dated July 20.

We are also in receipt of a telegram dated July 22 from Walker T. Pound, director of conservation, Oklahoma City, Okla., which telegram will be inserted in the record at this point.

(The telegram is as follows:)

OKLAHOMA CITY, OKLA.,
July 22, 1953.

HON. CHARLES A. WOLVERTON,
Chairman, House Interstate and Foreign Commerce Committee,
Washington, D. C.:

Re your telegram. Regret that it is impossible for me to attend committee hearing on July 23. Will however be available at your convenience at a later date. Would appreciate advance notice. Oklahoma corporation commissioners pursuant to the duties conferred upon them by the Oklahoma constitution and applicable statutes establish allowed crude oil production, in open hearing, each month pursuant to testimony and in the interest of the preevntion of all types of waste and the protection of correlative rights as defined by said statutes. Mr. Earl Foster, secretary, Interstate Oil Compact Commission, who served for 10 years as attorney for the Oil and Gas Conservation Department, Oklahoma Corporation Commission, will be in attendance at your committee hearing. He is hereby authorized to speak for his department and this commission.

WALKER T. POUND, *Director of Conservation.*

The CHAIRMAN. We are continuing our inquiry today into whether the recent increases in the price of gasoline and oil were warranted, by hearing from the chairman of the Texas Railroad Commission, Commissioner Ernest O. Thompson.

Of course, Texas exercises a dominant position in the supply of oil in this country by virtue of its production amounting to practically one-half of the total which is produced here at home. Control of this production is vested by State statute in the Texas Railroad Commission. We are interested, accordingly, in how far the action of that commission in reducing the amount of oil which might be produced in Texas successively each month for the 6 months preceding the time the price was increased may have had a bearing on the supply of oil in this country and have affected the price of oil.

It has been my privilege to have acquaintanceship with General Thompson over a long period of years. During the course of these hearings I have looked for his familiar face in the audience, but it is not until today that we have had the privilege of his attendance.

I have informed the committee that it could not be a real, full investigation or study of oil without the appearance of General Thompson as a witness. On many occasions he has appeared before this committee, always willingly, and giving information that was most helpful and worthwhile to the committee.

We certainly are pleased that on such short notice he accepted our invitation to be present and is here today. It is indicative of the interest he has always taken in matters that pertain to the oil industry of our country.

General Thompson, we will be pleased to hear from you.

STATEMENT OF ERNEST O. THOMPSON, CHAIRMAN, THE TEXAS RAILROAD COMMISSION

Mr. THOMPSON. Mr. Chairman and members of the committee, in response to your telegram of last Saturday, requesting me to appear before your committee, I am happy to come up here from Texas to explain to you how we administer our oil and gas conservation statutes.

Mr. Chairman, I do not have the words to express my gratitude to you, sir, for the kind introduction which you have given me. My associations with you have always been most pleasant, and the work

of this committee through the years has been one of great joy to me. I had the pleasure awhile ago of asking Mr. Layton, your fine clerk of the committee, about Mr. Cole, Congressman Cole, who was chairman of the Cole committee.

Those early days when you took the time to go down into the fields and see how the thing was being done or not being done you helped us greatly. The very presence of a congressional committee in the Texas fields brought to me great encouragement. I will say in all candor and with deep gratitude, Mr. Chairman, that I think this committee and the Cole committee from the Interstate and Foreign Commerce Committee did more to set conservation on a sound footing than anything that was ever done. The patience of the committee to me was perfectly amazing. You continued to study the problem, always giving the States the impetus and encouragement to go ahead and pass good conservation laws.

I remember the chairman on many occasions telling us to go ahead and exert our State sovereign powers and do the job rather than having it threatened to be taken over under Federal control.

So I do here express gratitude to you in the name of our State conservation and all of the other conservation officials. Particularly the encouragement that this committee gave us in forming the interstate oil compact was very valuable. You gentlemen pointed out to us that the compact was a way in which the States could interchange information each with the other, offering a forum where the best ideas in conservation could be exchanged, one State with the other.

I wish to report to you, incidentally, that the compact is furnishing just that sort of forum, where we meet and discuss informally each with the other how we have gotten along, both our successes and our failures. Conservation of oil and gas, gentlemen of the committee, has perhaps progressed more by its defeats than by its immediate successes. I mean by that that our commission, for example, has been taken to the courthouse more than 800 times. We seldom win in the beginning, but as time goes on and the methods are explained and tested by experience, gradually they are sustained by the courts.

So, now, we do have in our State and in other States a fine set of conservation and proration laws that bring forth greater and ever greater amounts of oil for our rapidly expanding economy and for our defense in times of emergency.

The Railroad Commission of Texas is a constitutionally created elective body.

The CHAIRMAN. Before you start your prepared statement I would like to say that the remarks which you have just made bring back my memory to those days, some 20 years ago now, when the Cole committee was brought into being to make an investigation or study of the oil industry. They were exceedingly hectic days and times.

I can remember the conditions that existed that made your task as a commissioner not the easiest one, and I remember very distinctly the courage and the ability with which you met the problems of that day. It was no easy task I assure you.

Mr. THOMPSON. Thank you very much, Mr. Chairman.

Mr. THORNBERRY. Since we are getting off to such a good start, I would like to say, if I may, to the members of the committee that it has been my privilege to know General Thompson a long time. I do

not believe any longer, though, than the Chairman has known him. In our State we are proud of General Thompson, not because he is chairman of the railroad commission, or the foremost authority on oil and gas conservation in the Nation or in the world, but because he has made such an outstanding contribution to public service.

I know of no man in Texas who for some twenty-odd years has contributed his very best to the public service in Texas, and the military service of his Nation in both wars. He is a great Texan, and I am proud he is here today and that I can speak in his behalf. Thank you.

The CHAIRMAN. Remembering those experiences at that time, for the benefit of those of you who were not here at that time, you will remember that Mr. Pettengill was a member of that Cole committee, and his experiences with the Cole committee were such that he was inclined to write a book, which he did, entitled "Hot Oil."

Mr. THOMPSON. He sent me a copy.

The CHAIRMAN. And I think the greatest compliment that I ever had paid to me was when he asked me to be a coauthor of the book, but I refused on the basis that I had no itch to write, and that I would be perfectly satisfied with anything he said. He did write the book, and it had quite some considerable issue growing out of our experiences at that time.

The work of that committee took us not only through the State of Texas, but elsewhere in the United States, and I will say for the benefit of the committee, its report covers about 8 books of printed matter, some 400 or 500 pages to a book, and the industry has in the past referred to it as one of the outstanding studies that have been made of the oil industry. I mention this because I feel as if I were in its reflected glory, something very pleasing to experience.

Mr. THOMPSON. The railroad commission is composed of 3 members, 1 elected each 2 years for a term of 6 years.

It was originally created to regulate freight and passenger rates on the railroads. Then from time to time other duties were assigned it by the legislature, including the regulation of trucks and buses, the gas utilities, the butane and propane dealers for safety measures, and the administration of the oil- and gas-conservation statutes of Texas.

Our legislature is reluctant to set up new bureaus. They just hand these new duties to an existing commission. So when the regulation of trucks and buses came about, the legislature added that duty to the commission, and then when gas utilities came to be regulated, that duty was added; and then when butane and propane handling came in for safety measures, that was added to the commission's duties. Then in 1925 when the oil- and gas-conservation laws were passed, the administration of oil- and gas-conservation statutes was also given to the Railroad Commission of Texas.

I explain that because the name Railroad Commission of Texas is in the constitution and it is more nearly a public service commission.

Personally, I came on the Commission in June 1932, and have served continuously since then. I am an attorney by profession. I have no connection with and own no interest whatever in oil or gas in any way except as a public administrator of our oil and gas laws and as a citizen soldier; and none of my kinfolks do, as far as I know. I think I would have heard about it if they did. The only interest

I have in oil is as a public administrator. All my adult life I have served in the National Guard and the organized Reserve, having served overseas in both world wars; and I am now the Commanding General of the Texas National Guard consisting of the 36th Infantry Division, the 49th Armored Division, the 112th Motorized Cavalry Brigade, and the Texas Air Squadron.

I was one of the organizers of the Interstate Oil Compact Commission and served three times as its chairman, and am now the chairman of the legal committee.

Texas has 142,000 producing oil wells in 1,600 separate oilfields, and is today producing 2,861,000 barrels of oil per day. Texas has a reserve producing ability of about 600,000 barrels per day if called upon in an emergency.

Mr. Chairman, I have checked back to 1932 when I came on the Commission; we had 47,000 wells and were producing 740,000 barrels per day. That was 15.7 barrels per well per day. The average for the United States today is 14 barrels per day. Texas is presently producing, as I said, 2,861,000 barrels a day from 142,000 wells, which is 20.1 barrels per well per day. So, in the 21 years under conservation, we have increased the number of wells in Texas from 47,000 wells to 142,000 wells, and the production is 20.1 barrels per well as against 15.7 in 1932. The average for the United States is around 14 barrels; that is per well per day.

During World War II Texas oil wells furnished about 60 percent of the petroleum for our war effort. Petroleum and its products made up 80 percent of the overseas tonnage. Sixty percent of the oil came from Texas. At the close of the war we were producing oil at our extreme limit under good oil producing practices. They were calling upon us for every barrel that could be produced in the State without seriously harming the wells, and, of course, in time of war the conservation rules and waste prevention rules were not as strictly enforced as perhaps you would do in time of peace, because we had to have the oil.

Oil, of course, as you gentlemen all so well know, is a sign you have war of the highest order. I saw thousands of German vehicles, mounted artillery, motorized units, stalled because they ran out of gasoline; all in good condition, except no gas.

Conservation as applied to oil and gas production does not mean the locking up or hoarding of these natural resources. Rather, conservation of oil and gas means wise use of the reservoir energy which drives the oil through the sands and rocks to the well bore and on up the pipe to the surface for man's use. Wise use of reservoir energy is the aim and object and the sole aim and object of conservation.

Our Texas statutes on waste prevention include market demand. This definition says production in excess of market demand or transportation facilities is waste and is forbidden. The reason for that provision is that needless oil in storage above ground causes physical waste through leakage and evaporation. There is in storage above ground, as of last Saturday, 279 million barrels of crude oil today in the United States. Of this amount there are 133 million barrels of crude in storage of Texas origin.

The Texas law requires that the Commission ascertain the market demand for Texas crude oil and that we allocate this demand fairly

among the various fields and wells of the State. All purchasers must take ratably from the fields wherever they buy or produce petroleum.

We ascertain each month the market demand for Texas crude oil in two ways:

One, we receive from the Bureau of Mines an estimate of what amount of oil they calculate will be needed each day for the following month. This is not a directive in any way. This amount of crude may come from current daily production or from out of storage if storage is excessive. The Bureau simply makes an informed estimate or a forecast just like the Weather Bureau attempts to report on and forecast the weather. It is just like the Department of Agriculture reports on the cotton crop or wheat.

Second, each month we ask the purchasers of crude to nominate how much crude oil they desire to buy from Texas oilfields for that month. We then each month hold an open statewide hearing after 10 days' notice given to every operator in the State, open notice in the paper, at which the above information is made public and testimony is taken on the requirements of all persons for Texas crude oil. In other words, they explain their nominations. These are all totaled up and the decision is announced and written orders are issued covering every field and setting the daily allowable for each field and well in the State.

When this oil is produced, it moves on tenders which certify that the oil was produced according to the laws and valid regulations of the State.

It is to the economic interest of our oil producers and to the State revenue from our severance tax that we produce all the oil that can be sold. The State's revenue from oil is about $10 million a month, which helps greatly in financing our State government. We always produce all that can be marketed if it can be done without harm to the wells. I mean by that that physical waste is first, if the market demand were greater than could be produced, that would cause waste; then, of course, waste would come first. I mean by that, flaring of gas or excessive gas ratios or excessive water ratios.

As stated before, the reserve producing ability of the State of Texas today is around 600,000 barrels per day above what is currently being produced. We know we have enough oil for current demands, but our great concern is to be sure we have adequate reserve daily producing ability from wells drilled and in operation to furnish enough oil for any emergency demand that might come upon us.

Touching on this, I wish to read into the record a letter from the Secretary of the Navy, Hon. R. B. Anderson, addressed to Senator Lyndon Johnson. I quote:

> This in further reference to your letter of April 20, 1953, concerning the question posed by General Thompson of the Texas Railroad Commission relative to the amount of reserve daily producing capacity required for security. The Chief of Naval Operations, on the basis of investigation made in accordance with my instructions, has furnished me with information on your inquiry.
>
> The problem, as presented, is not peculiar to the Navy or any one segment of the Government. It is closely related to problems of national and international scope and is tied in with the amount of oil reserves available to the free nations of the world.
>
> It is estimated that the current United States daily production, including crude oil, distillates, and gas liquids, is 7,059,000 barrels per day. The estimated daily production capacity if restrictions were removed is 8,159,000 barrels per day.

This figure is not sufficient to meet the United States and allied requirements in time of a national emergency.

I would like to repeat that:

This figure is not sufficient to meet the United States and allied requirements in time of a national emergency. To meet the estimated wartime deficit, it will be necessary to resort to rationing as in World War II and a realinement of the petroleum end products as they come from the refineries.

In addition, reliance must be placed on the drilling of new wells and development of areas heretofore not fully developed rather than putting all our faith in proven reserves such as Elk Hills and Teapot Dome.

The problem is not one of reserves alone, but it is interrelated to refining capacity, land transportation facilities, tankers, and storage facilities as well as increased drilling of wells and development of new fields.

The Petroleum Administration for Defense under the Department of Interior is one of the agencies that coordinates the military requirements with similar civilian essential demands, and is in a position to elaborate on certain aspects of the problem that do not fall within the cognizance of the Armed Forces.

R. B. ANDERSON,
Secretary of the Navy.

MAY 22, 1953.

It is my considered opinion, Mr. Chairman and gentlemen of this committee, that by 1975 the United States will be requiring 12 to 14 million barrels of crude oil per day. That is about twice our present requirement.

We must drill as never before and drill ever deeper to find this added oil. Reservoir energy must be preserved and wisely used to get ever-increasing recoveries from each reservoir. Waste must be prevented.

To illustrate what I mean by conserving reservoir energy, I cite what has been done in the east Texas oilfield. That field is 23 years old. When outlined by dry holes to show the limits of the producing area, the experts estimated 1 to 1½ billion barrels ultimate recovery. The fact is that by carefully preserving and conserving the reservoir energy, we have produced and saved already 2,940 million barrels of oil; and the experts say if the same care is used in conserving the pressure, we shall recover 2 billion additional barrels of oil. That will be 4.9 billion barrels where 1 or 1½ billion were expected. That is a 2-to-3 billion barrel dividend for wise use of energy.

Incidentally, the latest 1 billion barrels of oil were produced along with a coincidental increase of 16 pounds in the reservoir pressure. That is conservation of oil. We are practicing it in all the oil and gas fields of Texas. We prevent physical waste. That is our duty. Thank you.

I might tell you how we proceed in our work. It starts with a permit to drill. A man who wants to drill files an intention to drill so we will know where the well is being drilled. He proceeds with his drilling, and when he gets ready to set his casing, we have men who go and test the casing, and then he sets the casing and he brings in a well. When the well is brought in, we make a test on the well to see what its potential is.

Of course, if it is a dry hole, he quietly folds his tent and he goes away and says nothing about it. It is only the fellows who hit the jackpot you hear about, and generally the ones who hit that use the jackpot proceeds to drill some more holes. If he hits a producer, he calls upon us for a test. Our men go and flow the well and give it a thorough test so we find out what the potential of that well is.

Then, when 5 wells have been drilled in a field, which gives us enough reservoir information upon which to proceed to find out what sort of a well it is—what are the producing characteristics of the mechanism in the reservoir, namely, is it a water drive, hydrostatic drive, formed by water encroaching against the trapped oil in the sands, or whether it is a gas drive where the base bears down on the oil, or whether it is a combination of water and gas, or whether it is a gas coming out of solution—as soon as 5 wells are drilled, we hold a hearing at which all parties are asked to come and appear and give the data on their wells.

This testimony is all reduced to transcript form, and it is studied by our engineers, read by the commissioners, and then a proper order is put into effect in that field prescribing how that field is to be produced. If it is a water-drive field, it is best not to produce the oil any faster than the water can come in and maintain the pressure.

A typical example of that is the one I have just given you, the east Texas field. There we found that the drive in the east Texas field was a water drive, furnished by the encroachment of water coming down through the woodbine sands with the outcrop between Fort Worth and Dallas from the Oklahoma border, down to Hill County, where this water outcrops. As the floods come, the water seeps down through this highly porous sand, 26-percent porosity and very permeable sand, and the water drops down 105 miles and dips to 3,200 feet where it hits the oil in that area, and it comes in contact with the oil and builds up a hydrostatic head which originally was 1,600 pounds.

As the pressure dropped—and the time you were down in east Texas, Mr. Wolverton, the pressure was dropping 30 pounds per month—we arrested that declining pressure by reducing the amount of production of oil and water and gas that came up with the oil to the amount so that the pressure would remain constant in the reservoir.

Last year, for example, 220 wells formerly on the pump went back to flowing, because we had conserved this pressure.

The last 1 billion barrels were produced, as I said in my statement, coincidentally with an increase of 18 pounds in the pressure. We had quite a water problem in that field, if you remember, salt water coming up with the oil, and it got to the point where it was between 400,000 and 500,000 barrels of water per day coming up with the oil.

We were contemplating perhaps having to dig a pipeline to the gulf or a canal, because the streams get polluted and the Sabine River was being polluted with salt water and killing the fish and interfering with the cities' taking water down the river. So we got to work on it and studied the problem out through cooperation with the University of Texas and decided to reinject the water back into the water stream or the sands saturated with water on the side of water intrusion; and that has been so successful, Mr. Chairman, that for 14 years now we have been putting back on the side of water intrusion 400,000 barrels of water per day, 95 percent of the water that comes up with the oil is recovered and saved and treated and put back on the side of water intrusion to help nature maintain that pressure.

So the results have been good, and I am sure the figures I gave you of total ultimate recovery of 4.9 billion barrels is very conservative.

Some experts of undoubted ability estimate as much as 6 million barrels where 1 or 1½ was expected. I can give you no better example of reservoir control than that field, unless it would be the Thompson field or the Hastings field, or the Van field.

In many fields we take the gas that comes up with the oil and return the gas to the producing horizon to maintain the pressure in the same manner as is done by returning water. Those are the highest types of conservation. We also have water flooding projects, where old thought-to-be-depleted wells that were about to be abandoned are treated by having fresh water injected into the periphery of the field; and we have notable examples, particularly in Ward County, south Ward, where wells were down to 2, 1½, and 2 and 3 barrels. And I remember 1 well in the whole group, the best 1 of the 30 or 40 wells left in that field, was producing 5 barrels.

Some people went in there and spent nearly a million dollars in their installation to put water back in, and getting the idea from Pennsylvania, as they do up around Bradford, flooding and putting water back in around the oil, and producing wells, and this particular project I am talking about in south Ward has been going on now about 22 months and those 2-barrel wells are up to 200 barrels, and the 5-barrel well is producing right at 500 barrels per day.

We limit them not at all, because we figure that that is bringing back the dead and is the highest type of conservation, reviving that which would go out on account of economic abandonment.

I would like to pay tribute to the State of Pennsylvania for bringing that waterflooding technique to us. We are deeply grateful, and it is being done in several hundred projects in Texas, all over the State, and that is not restricted in any way, because whatever oil the man can get out of a thought-to-be-depleted field is conservation of the highest order and must never be interfered with. We have told these operators who will go and spend their millions in the hope of reviving old production—it takes a careful study and good application of sound engineering principles to make this thing possible. It is being done.

I estimate, Mr. Chairman and gentlemen of the committee, that there are at least 1 billion barrels of oil that we will recover from wells that are now in fields being worked on, and in the United States there are probably 100 billion barrels of this thought-to-be-lost oil and thought-to-be-depleted fields that will be brought out. The science of reservoir control is a high form of petroleum engineering and it is going forward by leaps and bounds.

I remember, Mr. Chairman, the years you were talking about, in 1932, petroleum engineers were not so plentiful, but universities have been putting out hundreds of them, and several hundred have gone through our office, and our State pay is not high, but they come to us from the colleges to get the training in the field, and then they go out and people hire them away from us at better salaries, but we are always glad because they carry the technique and the practice and the principles of the commission in conservation out into the operators' hands.

This 12 to 14 million barrels of oil per day will be recovered by more and more drilling, greater and greater depths in drilling, and by waterflooding and gas injection and by pressure maintenance, even to reviving pressures that have been gone.

After a field has been brought in, and we have our hearing after 5 or 6 wells have been drilled, and then we prescribe the proper rules,

as I said, for the operation of that field, and all of the wells that come in abide by that same rule, we work out a proper spacing, and the spacing is to have uniformity in drainage area; and we place the wells, 1 well to 20 acres or 1 to 40 acres, whatever the reservoir characteristics indicate will insure adequate and complete drainage of that area. That is the criteria to decide how wide or how narrow the spacing shall be.

In gas wells in large areas, we generally give 1 well to each section, 640 acres, because it does not matter how many wells you drill, there is only so much gas that can be sold, and the gas will drain long distances, and oil does not drain so far. Our standard in Texas for the statewide pattern, by statewide order, is 1 to 20 acres. If the sands are permeable and porous, we sometimes go as high as 1 well to 40 acres.

Recently in the Spraberry field they indicated by uncontested testimony the drainage area was very great, and so we had 1 well to 80 acres in that field. That is the largest spacing area we have, and that field has been described very aptly in our hearings by at least one engineer as the greatest unrecoverable reserve of oil in the United States. It has been a graveyard financially. The structures are vertical, fractures are, and very difficult to produce. It is turning into a gas field.

By the way, Mr. Chairman, we have vigorously, since the close of World War II, stopped the flaring of gas.

Mr. HALE. Did you say you stopped the flaring of gas?

Mr. THOMPSON. Yes; we are stopping it. Yes, sir. Wherever the quantity of gas is great enough to pay for either returning it into the horizon to maintain the pressure, that is the first desire and most desirable; and, second, wherever there is a market for the gas and the amount of gas is great enough to pay for the pipe—of course, we cannot make them do an uneconomic thing. We cannot make them spend more money to lay pipe to collect gas than the gas would sell for.

We have hearings on those matters, and if they can show that the well is so far removed from a pipeline that it will take more money, we do not make them do that. Last week we had a hearing where it would take 120 years to pay for the pipe, and we exempted that well from having to lay a pipe to get the gas that comes with the oil.

I am not talking about gas wells; there is no gas allowed to waste from any gas well at all. But when you produce oil, some gas comes up with the oil, and it comes out of solution when the oil hits atmospheric pressure. That gas has always, as you know, been vented in flares and burned for safety, so it would not collect around the well and be a hazard for life and limb.

Now, we are collecting that flare gas, and it is going into pipelines to many States. It goes to California and all of the way to Massachusetts, and to the Northern States around the Great Lakes.

Gas is being gathered from the flaring of oil wells, all over the State, and pipelines have been built with that flare gas as its supply.

I believe, Mr. Chairman, that covers the work we do.

The CHAIRMAN. Are there any questions, gentlemen?

Mr. HESELTON. General, I certainly recognize your outstanding ability and your record. I trust that you will not consider my inquiries motivated by any other reason than an effort to try to understand what I have never been able to understand, and that is the philosophy or the

economics of relating production to market demand as anything except a violation of the clear prohibition of the interstate oil compact itself.

Article 5 of that compact clearly gives recognition to the possibility of going quite beyond the purpose of conservation. Standing by itself, it would be a violation of existing law. I want to read the text of that, not because you are not familiar with it, but so that we will have it in the record:

> It is not the purpose of this compact to authorize the States joining herein to limit the production of oil or gas for the purpose of stabilizing or fixing the price thereof, or create or perpetuate monopoly, or to promote regimentation, but is limited to the purpose of conserving oil and gas and preventing the avoidable waste thereof within reasonable limitations.

You were quoted in a dispatch on June 17, which is about the time of these various increases, as saying that there does not seem to be any connection between producing and refining departments.

Later, in July, at the time of the setting of the July allowables, you were quoted in the press as having said that the reduced refinery runs now might head off cuts later and that next year would be a critical one, but that the oil industry could "go forward with a vigorous campaign if caution is exercised by all elements now."

Those statements do not seem to relate themselves to a question of an oversupply, and yet to my mind they carry a clear warning to the industry that if they produce more than will be reasonably expected to be sold, they could expect to run into trouble pricewise. Would you care to develop what you had in mind a bit more?

Mr. THOMPSON. I would be happy to. We never consider price at all, and there is no question about price in my statement whatsoever. What I had reference to was the tremendous overhanging stocks of gasoline on hand. While we have nothing on earth to do with gasoline except that you do make gasoline from crude, and the more gasoline you pile up, it seems certain to me the more crude would pile up, or the market demand would drop. People are very reluctant, all oil operators and producers are, to have their allowables reduced. They want to produce wide open if they can. If they cannot, they want to produce as much as they can, and it is a perfectly normal, human, natural desire, like eating. They want to get all they can.

The point was that there are 25,721,000 more barrels of gasoline on hand now than there was 1 year ago. I was simply saying there that the throughput of crude through the refineries seemed all out of reason.

Again, the refineries are just as anxious to run every barrel they can, because they have got their refineries fired up, and if he has a 20,000-barrel capacity and he is only running 10, he can run the other 10 with the same heat and labor that he runs the first 10,000. But if he cannot sell it, then you would have to cut crude production back, which always we are reluctant to do. I was talking about the overall oversupply.

As of today, the total crude and products stand at 590,142,000 barrels, which is 42,786,000 barrels more than a year ago. That was my only object in making the statement. I said it did not seem that the industry operated each with the other, and they seemed to operate in separate cells and did not have an interphone. Although it was none of my business, I just warned them if they kept on running more and more crude through their stills to make more and more gasoline, they would have gasoline running out of their ears, and we would, of

necessity, under their own nominations, because they will come in and ask for less, and they would not buy it, and you cannot drink it; and I was making the warning that it seemed to me if the refiners kept on running more and more crude, about 400,000 more barrels than indicated was needed by the study of the statistics, they would have trouble in oversupply.

Nothing about price was in my mind. We never consider it. I am a buyer of gasoline, in my car. As I said in my statement, I have no interest on earth in the oil industry in any way except as a regulator of conservation or purchaser of gasoline. So, pricewise, I am for cheap gasoline, of course.

Mr. HESELTON. You stand in the same position as a lot of other people.

Mr. THOMPSON. I always had the firm conviction that there are more consumers than there are producers, and I run for office.

Mr. HESELTON. Of course, some of these gentlemen in the oil industry do not run for office, you know, and they do not take that into consideration.

Mr. THOMPSON. The people elect me because they think I try to do what I think is right. I know I work for the public interest.

Mr. HESELTON. I realize that.

Mr. THOMPSON. And I did not intend to make this job a lifetime career. I took it for a 3-month job, because the Governor of Texas, Governor Sterling, who is now passed on, had called out the National Guard because they had an orgy of drilling, and oil was running down the creeks, as the chairman remembers, in those early days. Governor Sterling asked me if I would come down and help out a little bit, because Governor Neff who was then a member of the railroad commission, had been tendered the presidency of Baylor University, and he wished to accept it right then. Governor Sterling phoned me one day to come down the next, and told me about it, and appointed me during the noon hour. I was not an applicant, and I told him I could serve only 2 or 3 months.

But I got into this interesting waste-prevention situation over in east Texas, and it intrigued me—the idea of doing something that would give a reserve supply of oil for war. I must admit my whole thinking has been one of military reserves, having been trained and lived my life as a guardsman, and knowing haw important oil was in the First World War.

In that war we were just then converting from horsedrawn artillery to trucks. We had very few trucks. But I had enough experience was gasoline-propelled vehicles in war I and the scarity of them, to try to build up our oil reserves. I have been on the commission 22 years. I reckon I will run again.

I do not know what it is that make a man stay on a job where he is shot at from every side for doing what he thinks is right, but there is a charm to it, and I guess you all have had the same experience in serving in public office.

Mr. HESELTON. You are disarming me rapidly, but let me say that you started your campaign off for reelection in first-rate shape this morning right here.

Mr. THOMPSON. I do hope the press is taking notice of it. I have to run next year.

Mr. HESELTON. Well, General, to get back to my point, if I can: Before the Senate Small Business Committee back in 1949 the executive secretary of the compact was before the committee and testified that the purpose of the State proration laws was to "prorate to market demand." And when you limit to market demand, of course, you affect the price.

Now, I realize that you can very conscientiously blanket out any thought of price from your mind if you are making these decisions, but, frankly, looking at the picture in other segments of industry, if you have 1,000 more automobiles manufactured or 10,000 more suits of clothing or 100,000 more loaves of bread than will be taken up, I think that you will agree with me that the inevitable effect of that is at least not to present a situation where the seller of those articles can price that upwards.

He has to sell it, and he has more on hand than he can sell, and consequently he has to regulate his price to demand. That is the difficulty that I have in finding that actually the reliance is not upon efficient rate of production, but more emphasis is placed on what can be absorbed and what the purchaser or the consumer will pay.

You just mentioned the fact of the comparative increase in gasoline over last year, and I realize that probably there are more cars and more users. But it is awfully difficult to understand how then the companies can justify an increase in the price of gasoline at this time when they have so much excess on hand and when your commission is concerned that they should not have as much as they asked for.

Mr. THOMPSON. We give them all they ask for. I am very glad to explain that, because when you talk about waste prevention of oil I say it is wise use of reservoir energy, and there are eight more definitions that come ahead of the market-demand statute; and it is the ninth definition in waste.

They all come ahead of that; namely, cutting off water from a producing horizon, intrusion of fresh water or salt water, producing with a high gas-oil ratio or excessive oil-gas ratio, producing with a high water ratio, and there are eight different reasons, all waste prevention, and they come first. Then as a final one and in addition to these, you may not produce oil in excess of market demand or transportation facilities, as our statute says:

> The production of oil in excess of transportation facilities or market demand is waste and is forbidden.

That is the ninth definition, but only 1 of 9. All of the others take precedence to it.

You must prevent all physical waste first; and if you prevent all possible physical waste in the production of oil and produce at the most efficient rate, and then there is not enough to fill the market demand, you never get to market demand at all.

But in our State we can produce 600,000 barrels per day more at the most efficient rate, so market-demand statute, comes in and says that you shall inquire how much people will buy, because to produce more than they will buy causes unnecessary waste in storage, and we know it is very wasteful. Even the most efficient tank, if you look at it in the sunlight, you will see little shimmerings going up from it. That is the most valuable ends of the oil coming out of solution.

The best place to store oil until you need it is in God's reservoir, where He put it and He kept it for millions of years, until man was given the intelligence to find it.

There are eight reasons ahead of market demand and the market demand is just a limiting one after all of the other forms of waste are prevented. Now, this reservoir control is the most important thing; that is my own definition, and I do not know whether scientists would approve it or not, but I say conservation as applied to oil and gas production is wise use of reservoir energy. That is what propels the oil through the sands and drives it to the well bore and then up through the pipe.

So waste above market demand is just 1 of 9 things that we prevent. It is the limiting factor to prevent avoidable physical waste, and we had millions of barrels of oil in storage around east Texas, for example, as the chairman will remember, when they were producing 900,000 barrels per day from that field. Pressure was dropping 30 pounds a month. In a few weeks, if we had not stopped it, by reducing the rate of withdrawal, the pressure would have dropped down to solution ratio, which is 740 pounds, and the oil would have become inert and heavy and sticky, and it would have clung to the sands, and it would have had to be pumped, and perhaps 80 percent of the oil would have been left in the ground and never to be recovered by man by any known method.

Instead of that, we are recovering 80 percent and leaving only 20 percent in the ground; and as our techniques improve and as our education improves by study and laboratory work and research, we hope to get even better than 80 percent.

As a matter of fact, on the west side of the east Texas field, where the water has moved beyond the wells and moved the oil either up through the well bore or pushed the oil up structure, we have taken samples of sands there and found less than 2 percent saturation. That is oil clinging to the grains, which would indicate a very high recovery.

Mr. HESELTON. Let me go at it another way, if I can, to see if we can get some clarification. The Senate Appropriations Committee in reporting the Interior Department appropriation bill of 1948, at the bottom of page 9 of that report, refers to the oil and gas division work it performs coordinating and unifying policies of the Federal Government with respect to petroleum, and statistics of studies conducted by it, and states that it will render a service to the oil and gas industry:

> Its service to industry is to provide information which industry cannot itself get without violating the antitrust laws.

Do you subscribe to the theory that it would be a violation of the Federal antitrust laws for the oil industry to prepare forecasts of demand of petroleum?

Mr. THOMPSON. The oil industry to prepare forecasts?

Mr. HESELTON. Yes.

Mr. THOMPSON. I would rather get it from the Bureau of Mines. It is like I would rather get the weather from the Weather Bureau. The companies are biased.

Mr. HESELTON. I remember some advice given to me when I first started to practice law, that was to be careful in examining 2 classes of

witness, I was a woman and the other was a lawyer; and I guess I am getting a pretty good demonstration of that this morning.

Mr. THOMPSON. I did not intend to tell you anything except with candor and just what happened.

Mr. HESELTON. Now, do you agree that the Bureau of Mines' estimates work a good deal like the trade associations' statistical services, which were condemned in the Sugar Institute case, in 297 United States?

Mr. THOMPSON. The Sugar case?

Mr. HESELTON. Yes. The Supreme Court condemned that type of activity on the part of trade associations, and I wonder if you can reconcile or differentiate between the services provided by the Bureau of Mines to you, in setting your allowables, and what the Supreme Court condemned in the case of a trade-association estimate?

Mr. THOMPSON. You mean the trade association was a bunch of sugar people? Here we Government officials, State and Federal, do this job, unbiased Government people, each in their separate sphere of jurisdiction.

Mr. HESELTON. Do the officials provide the cloak of immunity or the cloak of respectability that otherwise would not be possible unless you had this setup of the oil and gas combine?

Mr. THOMPSON. We do not take the Bureau of Mines information as any pronunciamento or order or directive. We just look at it as we do the weather report and carry our overcoat if we think it is going to be cold or raincoat if we think it is going to rain. We use it in conjunction with our own research and study.

The CHAIRMAN. Do you find it is wrong as often as the Weather Bureau is?

Mr. THOMPSON. Well, they are not infallible. I do not think they would claim to be. They just are sitting where they study this thing, and I know they are right at the end of the month, because they make corrections during the month to make themselves as nearly right as they can. They can do better than we can do, because we put out our allowables for a month and they stand, but the Bureau goes along and sees how they were wrong, and they correct it, and we can study those weekly reports and they are very helpful, because they put out, for example, a weekly report on stocks, and it shows this last week how much crude there was on hand.

And it is the custom of the trade, or the oil industry rather, to carry crudes by their origin, and Texas crude is Texas crude no matter if it is located in Pennsylvania or anywhere else. It is stamped like Quaker Oats. You can see how your product is going. If you had your store full of Quaker Oats, and the back room full, and your pantry, and everywhere else, you would not buy any Quaker Oats on the next trip.

Mr. HESELTON. Seriously, General, you are taking an awful lot of my time.

Mr. THOMPSON. I came a long way up here. I just wanted to explain this sheet that comes out each week; and it shows, here is Texas crude, east Texas crude, and west Texas crude, Gulf Texas crude, and other crudes, and Panhandle crude, and whether they are going up or down, and taken out of storage or going into storage.

We look at this and see if our crude is being consumed, and if it is, then we can increase the allowables. We can fill that market.

We have done that consistently since 1931 when our market was 740,000 barrels a day, until now it is 2,800,000. So we have been moving in and taking more and more markets, to nobody's detriment, because other States produce all they can.

The CHAIRMAN. Will the gentleman yield?

Is not it your intention to ascertain from this witness where the Bureau of Mines gets their basic information from?

Mr. HESELTON. I would be glad if he can tell.

The CHAIRMAN. That is, where they find out how many boxes of Quaker Oats are in the store.

Mr. THOMPSON. I do not know where they get it.

The CHAIRMAN. It seems to me that from the testimony, as I have gathered it, it would be that the Texas Commission gets its information from the Bureau of Mines, and I thought probably the gentleman from Massachusetts would be interested to know where the Bureau of Mines got its information.

Mr. HESELTON. I would assume the Bureau of Mines had to rely largely upon the estimates of the oil companies themselves as to what they would take, so we get right around in a nice circle.

The CHAIRMAN. That would be worth developing.

Mr. THOMPSON. I have an idea they get reports from industry. It would be the only place.

Mr. HESELTON. That is right where the industry is the key figurer, and industry sets the figure.

Mr. THOMPSON. These are stocks, these are stock figures, how much you have got on hand, Mr. Congressman. I am not talking about the estimate of market demand, and I do not know where they get that figure; but these stock figures must come from the people who have the storage, and they add them up and say there is so much Texas crude in storage. I was talking about storage figures and not the Bureau of Mines forecasts.

Mr. HESELTON. Would you maintain, General, that if there were 100,000 extra barrels of gasoline available in storage—I will put it 1 million barrels to make it more clear—more than the people in the northeastern part of the country could be expected to buy in the next month, that this price rise would stay fixed?

Mr. THOMPSON. You say would 1 million barrels extra?

Mr. HESELTON. Over what people would buy in the next month, do you think that this price rise would stay fixed? We have had witnesses here testify over and over again they do not know whether this will stick, and they maintain that the consumer will determine it. They say he will not buy it if the price is too high.

Now, I ask you, on the other hand, if there are 1 million more barrels in storage in the northeastern part of this country, talking about gasoline, than the consumers will buy in the next month, do you think this price increase would stick?

Mr. THOMPSON. I have no idea. You are clear out of my line of work. I do not have a thing to do with price of gasoline or oil. I would not venture an opinion. We have nothing to do with price.

Mr. HESELTON. I realize that, but it does seem to me there is a very convenient and nicely developed system in reference to the oil industry. The companies undoubtedly furnish the Bureau of Mines with information, and the Bureau of Mines, whether they change it at all I do not know, they furnish it to you, and you call these same com-

panies in and they give you their nominations, and you fix the allowables; and it is mighty strange to me that the allowables always seem to be slightly under the amount that is estimated will be consumed. Of course——

Mr. THOMPSON. Could I, at this point, make a statement?

Mr. HESELTON. Could I complete this, because I want to have it in the record? Of course, it would be absolutely a violation of the antitrust laws for the oil companies to get together, for them to write out a memorandum agreement and for them to exchange letters, and even for them to confer about the matter. They do not have to do that. They do not have to even give the sign of the lodge to each other in some club or hotel. It is a perfectly worked out scheme so that they can act without violating the law, but the results are exactly the same.

That is borne out in terms of the very prohibitions written into the interstate oil compact legislation. There it is recognized, and it would not be in there if it was not recognized, that this action could have the power of stabilizing prices, and I do not care how intricate the explanations are, I am sure that the people that are concerned with it are honorable men, and I know they would not violate the law itself; but what I am saying is that the very results of all of this intricate machinery is that the antitrust laws are violated and that the price is at least stabilized; and the consumer is consequently adversely affected and cannot do one blessed thing about it.

I have said earlier in this hearing the consumers of this country, as far as the oil industry are concerned, are at the mercy of the oil industry itself. They have no competition like that we have in other areas, and I just am amazed that over all of these years, with that statute on the books, we had testimony before this committee from the head of the Antitrust Division in the last administration admitting that they had taken no steps whatsoever to look into this situation.

I think it is high time that the administration, the Antitrust Division, did take very sharp and vigorous steps to see what is going on. Now, if there is nothing wrong about it, then no one is hurt. That can be reported to us. But if something has been devised which clearly brings about the result that is prohibited by the antitrust law, without taking the steps which would convict them of violations, then I think we ought to reexamine these laws very carefully and perhaps repeal the interstate oil compact law and the Connally hot-oil law, which has been advocated before this committee.

Mr. THOMPSON. Could I correct one point?

The CHAIRMAN. Before you answer, General, will the gentleman yield to me for a moment?

Mr. HESELTON. Gladly.

The CHAIRMAN. The gentleman has indicated familiarity with the Compact Act, and there are some features of it that I was not sure of myself at this moment. I would like to know whether the Compact Act lays a burden or directs any Government agency to study or report the effect of the Compact Act.

Mr. HESELTON. Mr. Chairman, when we had this witness before this committee, it was the Honorable H. Graham Morison, Assistant Attorney General of the United States, in charge of the Antitrust

Division. You asked certain questions, and I think it might be appropriate to read that briefly. Mr. Morison said:

I will tell you what I conceive, Mr. Congressman, to be my responsibility, of the Department of Justice Antitrust Division, and that would be as I have stated before, that if this article 5 should be violated by participating oil companies in these various States, and we could find evidence, either upon complaint of a citizen or upon our own investigation, it would be my duty to bring a suit based on those facts.

You said, Mr. Chairman:

I fully appreciate that. But I am asking who is the watchdog as to the effect of that section and whether it is carried out? Is there any governmental agency that has the direct duty of doing so?

Mr. MORISON. I would assume that my Division, Mr. Congressman, would have the greatest responsibility for that. There may be others. I do not know. I keep speaking about the Interior Department, because I think of them in terms of this kind of project which they would have a continuing interest to watch this. I may be wrong.

Mr. WOLVERTON. That section was put in the bill originally for the very purpose I tried to emphasize, for the protection of the public interest. The very fact that it makes reference to monopoly and regimentation, and all of the other elements that enter into Antitrust Act provisions indicates to me that the responsibility was upon the Attorney General. If there is any doubt about it, would you have any objection to an amendment being made to this bill that would make that clear?

Mr. MORISON. No, sir. I have no objection whatever if, in the wisdom of the committee and Congress, it is desired.

The CHAIRMAN. What was the date of that testimony?

Mr. HESELTON. That was on June 12, of 1951.

The CHAIRMAN. I was under the impression that there was some direct reference in the act to a responsibility upon some Government authority to make reports concerning the operation of the Compact Act.

Mr. HESELTON. I do not think so, and I think that you will recall that some of us, including yourself, under the circumstances, in view of the vagueness of the testimony, made an effort to have an amendment placed in the law that would have placed specific responsibility on the Department of Justice to, in effect, police this operation and report to Congress at regular intervals.

The CHAIRMAN. I will ask the clerk to get me a copy of the Compact Act.

Mr. THOMPSON. The duty is put on the representatives of the Federal Power Commission to attend the meetings and report to the Congress. I think that that is what you have reference to.

The CHAIRMAN. It may be. My mind is a bit indefinite on that.

Mr. THOMPSON. There is one thing that I would like to, if I may, correct, and that is that we do not consistently——

The CHAIRMAN. Would you like the statement made by the gentleman from Massachusetts reread, in order to refresh your mind as to what has been said?

Mr. THOMPSON. I wanted to do it before he started. He said—and I am sure inadvertently—that we produce less than the Bureau stated. Here is the last figure—414,000 barrels above the Bureau of Mines' estimate.

Mr. HESELTON. What about in relation to the actual consumption?

Mr. THOMPSON. That is reflected up and down storage figures. These are stocks on hand and not forecasts.

Mr. HESELTON. I am more interested in what the people buy.

Mr. THOMPSON. Yes; but if we allow more than they say by 400,000, it would not be exactly proper to say we allowed less than the Bureau said.

Mr. HESELTON. I am not talking about the Bureau; I am talking about the people buying.

Mr. THOMPSON. I am trying my best to tell you that we are trying to do a clean, workmanlike job of conserving oil, and we are not finagling with price at all. I would like to see gasoline cheap, and, as I told you, I am a consumer. I know nothing about why they raise prices or how they do it. It would be wrong for me to get into that phase of it because I do not know a thing about it. I have nothing to do with it. I have nothing at all. We have not made oil scarce in order to make it high.

Mr. HESELTON. There is just one final question, and I have trespassed too far on the time of my colleagues, I am sure, and if we did not have a bill on the floor this afternoon, I would like to come back and talk with you.

Mr. THOMPSON. I want to go home as soon as I get through testifying.

The CHAIRMAN. You are the first one that ever came from Texas who would be satisfied to leave in 1 day.

Mr. HESELTON. I do not want to trespass upon your time or your campaign, but I would like to ask this final question: Some years ago some of the members of this committee were down in the Panhandle region, and in connection with our visit there we met a number of producers.

Mr. THOMPSON. I remember sitting with you at the dinner table in my hotel, the Herring Hotel.

Mr. HESELTON. General, I had a lovely time. I voted against the Kerr bill, and I was the only member of the committee who voted against it.

Mr. THOMPSON. We enjoyed having you so much.

Mr. HESELTON. Every single stop I had somebody new get in and talk to me about the seriousness of the Kerr bill, but what I wanted to get at was this: You were beautiful hosts and grand people, and they were quite frank with us, and they told me, as I recall, one of them anyway, told me that whenever allowables were reduced, they had to go out and drill additional wells merely to preserve their production. I think one of them told me that they had to add some 120 wells to 280 already producing to have the same output. If that is the case, do you feel that that has any relation to efficient production, and do you feel that at that particular time it was a wise result in terms of the stringency on the fuel supply?

Mr. THOMPSON. We had at that time in the Panhandle, and presently, 1 well to each section, and 1 well for 640 acres; and some people had failed to drill their wells, 1 to each section, and they were taking the allowable along the edge and draining their neighbor's, which was a violation of corelative rights, and we told them their allowable would be per section and as they increased their take, they should drill 1 well to each section to get their allowable increased, because we feel that 1 well per square mile is certainly thin enough drilling.

Those people that had to drill those wells had to drill them to get more gas and drain more area, and it was to keep them from draining

their neighbor's. They were taking the gas along the line from other adjoining property owners, and we are bound by law to protect corelative rights as well as prevent physical waste.

Mr. HESELTON. General, I am sure you are going to win the election.

Mr. THOMPSON. Thank you, sir.

Mr. HESELTON. That is all.

The CHAIRMAN. Are there any further questions, gentlemen?

Mr. ROGERS. I will be very brief, Mr. Chairman.

General, you make a statement here that I do not exactly understand. You say: "Texas has a reserve producing ability of about 600,000 barrels per day if called upon in an emergency." Will you explain that to me?

Mr. THOMPSON. We could produce 600,000 barrels per day more than we are currently producing if we could sell it or if war came and we needed it. At the beginning of World War II we had the rate at 1 million barrels producing ability, but before the war was ended we were using every barrel we could produce. Since that time, additional drilling has gone along, and ability to produce has been built up so now it is 600,000 barrels above current demands. It should be more than 1 million; the Nation needs at least 1 million barrels reserve caution for war. The more, the better.

Mr. ROGERS. Suppose this emergency called for the use of more oil, could you still produce it?

Mr. THOMPSON. Yes, sir.

Mr. ROGERS. You could?

Mr. THOMPSON. Yes, sir; 600,000 per day more.

Mr. ROGERS. You make a statement here, "Texas has 142,000 producing oil wells." How many wells offshore?

Mr. THOMPSON. We have not got any producing.

Mr. ROGERS. You have not any producing?

Mr. THOMPSON. No.

Mr. ROGERS. That is all, Mr. Chairman.

Mr. HALE. General, you showed us a sheet with an estimated crude. Could I look at that?

Mr. THOMPSON. Yes. These are reports of stocks on hand, issued each week by the Bureau of Mines. That is in the whole United States.

Mr. HALE. This is on the line of the questions asked you by Mr. Heselton, but I am not clear. You have a figure here for Pennsylvania grade on June 13, July 4, and July 11.

Mr. THOMPSON. That is in thousands of barrels.

Mr. HALE. Yes. Where do you get those figures?

Mr. THOMPSON. I got them from the Bureau of Mines. This is the report I get. It is put out every week, to everyone. We do not compile it. We receive it and I am interested in seeing how much crude there is in storage of Texas origin.

Mr. HALE. You do not know what the Bureau of Mines procedure is?

Mr. THOMPSON. No, sir; I do not. I never had occasion to inquire, but I am sure that it is a highly efficient board or bureau, one of the best in the Government, and certainly unprejudiced and unbiased. That is true if there ever was one.

The Bureau of Standards and the Bureau of Mines, I think, are top-notch governmental agencies.

Mr. HALE. That is all of the questions I have now, and I would like to study this a little further, Mr. Chairman.

The CHAIRMAN. Are there any further questions?

Mr. YOUNGER. Mr. Thompson, I think that you have been one of the most informative and most interesting witnesses that we have had before us.

Mr. THOMPSON. I certainly want to do whatever I can.

Mr. YOUNGER. There is one question, I noticed in the paper yesterday, a story about a suit in Oklahoma where some 200,000 barrels of so-called bootleg crude had been sold to refineries. Now, I want to know whether you have any agreement or understanding with the refineries that when they buy oil it is oil that has come out of these States under the allowable process?

Mr. THOMPSON. Well, the Connally hot-oil law forbids the transportation of oil across State lines, produced contrary to valid laws, rules, and regulations.

Mr. YOUNGER. What if it is only intrastate?

Mr. THOMPSON. Well, there is no way or no law that I know of to make that invalid. The way we do in Texas, if we catch someone producing oil illegally it is sued against like an action in rem. We sue the oil, and it is sold at the courthouse door and the money goes into the general revenues. It cannot go into interstate commerce, either, and has to be consumed locally.

We generally get county road people, they generally buy it and put it on the roads.

Mr. YOUNGER. You have no understanding as far as the refineries are concerned, or any responsibility on their part looking to the source of the crude?

Mr. THOMPSON. Oh, yes; they have to have a tender, like a bill of health. When you buy the oil, this tender moves with the oil to show it is legally produced.

Now, this oil that you are talking about, you said it was in Oklahoma.

Mr. YOUNGER. Yes.

Mr. THOMPSON. I didn't know that. If we had oil like that in Texas, that would not have a tender and, therefore, it couldn't get into commerce. That is like the Dyer Act, you can't move an automobile across State lines, or narcotics, or things like that.

Mr. YOUNGER. So that as far as Texas is concerned, that can be controlled.

Mr. THOMPSON. Oh, yes; we have it strictly under control in Texas, except that where the court sells it, the court orders us then in the court order to issue a tender, and we try to take that precaution that we have the court order us to issue the tender and that oil can be used within the State, but it can't cross State lines.

Mr. YOUNGER. That is, the State can possess the oil?

Mr. THOMPSON. Yes, and it does, and sells it at public outcry, and it seldom brings much because it has been in storage so long it gets thick and heavy like asphalt. No one profits by it, except the money goes into the State treasury.

Generally, they buy it to put on roads, in our State. The county commissioners buy it and they put it on county and city roads, on gravel roads.

Mr. YOUNGER. That is all, Mr. Chairman. I was just interested in that phase of it.

Mr. PELLY. Could I ask one question?

General, in the new fields in Alberta, are they using any conservation methods, and have they studied the methods?

Mr. THOMPSON. They probably have the best conservation laws ever written, Alberta and Saskatchewan. When they were getting exploration and studies and shooting and geophysical work and geological work, Mr. Tanner, one of their ministers, came and went through all of the various States and studied the various statutes of different States, and he came to our office, and stayed around there a couple of weeks, and took samples of statutes and orders, and the two provinces passed splendid conservation laws and excellent laws. I believe they are better than any I have seen.

That is because they are more recent and can take advantage of the advance in technology.

Mr. PELLY. That field comes down into Montana, does it not?

Mr. THOMPSON. Well, you have the Williston Basin, but it is not the same field. It is the same series of beds, along the hills.

Mr. PELLY. Do they have conservation there?

Mr. THOMPSON. I don't know whether the Dakotas and Montana have that. They passed a law this last session. There are 26 States that now have statutes, and the only one that doesn't have a statute is California, and they practice conservation pretty well, too.

Mr. PELLY. That is all.

Mr. THORNBERRY. General, I was rather interested in your observations, and our chairman's observations about the fact that the Cole committee came to Texas, and saw what was being done at that time in the field of conservation. We would be mighty happy if this committee would come down and visit us in Texas and see how the commission operates at the present time, wouldn't we?

Mr. THOMPSON. We would be delighted and we would be glad to have them come at a hearing.

Mr. THORNBERRY. Would the fall be better when it would be a little cooler?

Mr. THOMPSON. You can come in the hot weather if you like; you can come any time, and it is very nice to be here with you, Mr. Chairman.

Mr. BUSH. May I make an observation, General: You paid a very high tribute to Pennsylvania, and especially the Bradford area. It happens to be my privilege to represent the Bradford area, and my first term in Congress. That field was actually and practically depleted until they discovered this new process of flooding. It brought new life to the community and I am not prepared to say what the increased life of the field will be, but they continually have been able to produce oil through this new process of water pressure.

Wells that had practically depleted themselves down to where they just couldn't get anything now are producing wells. So I am glad to know that that is being done. Perhaps that is a contribution to Texas.

Mr. THOMPSON. We are greatly indebted to Pennsylvania for that water-flood process.

The CHAIRMAN. I have a series of questions that I would like to ask you, in order that the committee may have as much basic information as possible with reference particularly to how these allowables are fixed, and the effect that it may have with respect to price, which is the

price to the consumer which is the primary concern of this committee at this time.

Now, the first question I would like to ask is this: Is it the policy of the Texas Railroad Commission to establish crude-oil production on the basis of "maximum efficient rate" or "market demand."

Mr. THOMPSON. Well, first, we see that no waste is allowed to be produced. Second, we do not exceed the market demand by statute. That is by reason of the law. We cannot produce in excess of market demand because it says to do so is waste and is forbidden.

The CHAIRMAN. If the purpose of the statute is one of conservation solely, should not the State's interest in the conservation of oil end when it has established their "maximum efficient rate" of production?

Mr. THOMPSON. No, I think to produce in excess of market demand would bring on the same condition that you had, or we had in east Texas, namely, it would bring in a prolific field that could produce vastly more oil than the market could consume, and then you would have the abandonment and loss of thousands of other wells. That is in the stripper area and particularly in areas where we are trying to water flood.

The CHAIRMAN. When you limit it to demand, you are affecting price, are you not?

Mr. THOMPSON. I suppose that any limitation at all on supply would affect price; I suppose that that is true.

The CHAIRMAN. Well, that statement is identical with one that I made during these hearings, to which the Governor of Kansas took great umbrage, and I did not know whether he knew what he was talking about, as much as he thought that I did not know what I was saying, or which was the one that did not know what he was talking about.

But you at least have confirmed the thought that I expressed at that time.

Mr. THOMPSON. I think anything you have vast quantities of, more than anybody would buy at any price, they may take at another price, and use it for inferior uses, even putting it on roads. Now, to put Pennsylvania crude on a gravel road would to my mind be the most terrible kind of waste, because Pennsylvania crude is high-quality lubricating crude.

The CHAIRMAN. Do you think it comes within the province of a State commission to determine the end use of a crude oil?

Mr. THOMPSON. Not at all. I gave an example, though, if you had a grade flood of lubricating oil, and had so much of it you could not sell it, they would buy it for asphalt, and certainly I am against end-use control.

The CHAIRMAN. Well, then, this is more than a conservation statute, is it not?

Mr. THOMPSON. Sir?

The CHAIRMAN. The principle under which you fix allowables by the Texas Railroad Commission is something more than just a question, then, of conservation, is it not?

Mr. THOMPSON. No, sir; solely prevention of waste, under our statute is so stated, and we are bound to uphold the statute, and the statute says "production of oil in excess of transportation facilities or market demand is waste, and is forbidden."

The CHAIRMAN. If you express the opinion that it is necessary to do that to preserve from waste, I suppose you have in mind that it is an irreplaceable resource and when it has disappeared there is nothing to take its place.

Mr. THOMPSON. That is right.

The CHAIRMAN. Under those circumstances, do you favor importation of oil, or not?

Mr. THOMPSON. I do.

The CHAIRMAN. Without restriction?

Mr. THOMPSON. No; with some reasonable common sense, but I don't believe in having any law to limit importation of oil, because I think world trade is a two-way street, and you can't get people to buy from us, unless you buy what they have to sell.

The CHAIRMAN. Well, it seems to me that the only justification as I see it, maybe with not as much thought as I must give to it before I make a definite opinion, but it does seem to me that when you have fixed allowables on the basis of "maximum efficient rate" of production, that that comes about to the point where you should end. When you talk about waste, then you talk about it should not be used on gravel roads.

There are all of the other end uses to which you may or may not be agreeable. That is not the job of a State commission, in my opinion. That is a question that is a part of our economic policy, and it is for individuals.

Mr. THOMPSON. We do have a duty, Mr. Chairman, I am sure you will agree with me, to enforce the statute, and we don't make the statute; we are simply administrators of the statute, and I think it is a wise statute, the market-demand statute.

The CHAIRMAN. Well, now, do you have that in your statute, in Texas?

Mr. THOMPSON. Yes; I am quoting from it.

The CHAIRMAN. Will you be kind enough to supply this committee with a copy of that statute?

Mr. THOMPSON. Oh, yes; that is what we are administering, that is section 9 of the act, and I will furnish you a copy.

The CHAIRMAN. So that we can get this into a good form for the record, I would like to have you describe for us just how the Texas commission proceeds to set the allowables each month. Now, by that I mean a description of the actual procedures.

I understand you accept certain nominations from various oil companies and based on these nominations you set your allowables.

Now, just how do you do it, and will you explain the whole matter step by step?

Mr. THOMPSON. Yes. Exactly what we do, we first send out notices of a hearing.

The CHAIRMAN. To whom?

Mr. THOMPSON. To all of the operators in the State, and in the public press, so anybody concerned can come to the hearing, just like this hearing here. We give the time, and the place, and the date. Then we notify all of the people who wish to purchase oil that if they will nominate the amount of crude oil they wish to buy and send it in to the commission, prior to the hearing, and then come to the hearing and substantiate their application, we will give them the oil they need to have.

We also have the Bureau of Mines estimate of market demand.

The CHAIRMAN. Now, before we get to the Bureau of Mines, you send out that general notice, once a month?

Mr. THOMPSON. Each month.

The CHAIRMAN. With relation to what month?

Mr. THOMPSON. Well, we send the notice out for the August hearing in July, and the hearing will be the 18th day of August.

The CHAIRMAN. How many notices do you send out?

Mr. THOMPSON. About 6,000 notices.

The CHAIRMAN. How many appear?

Mr. THOMPSON. Generally about 250.

The CHAIRMAN. Who appears, the large operators, or small operators?

Mr. THOMPSON. Well, all sizes, big and little.

The CHAIRMAN. Are the big ones always there?

Mr. THOMPSON. Well, I suppose you could say that some representatives are there for nearly every principal purchasing company, because we call upon them to testify.

The CHAIRMAN. All right, what I have in mind——

Mr. THOMPSON. When you say all of them, it is pretty hard.

The CHAIRMAN. Do major oil companies have there representatives present?

Mr. THOMPSON. Yes, sir.

The CHAIRMAN. Do they make returns to you, as to their recommendations?

Mr. THOMPSON. They have mailed their bid in, and the nominations are mailed in to the commission, and then they are all listed on a sheet and handed out to everyone.

The CHAIRMAN. What does that nomination consist of, what does it say?

Mr. THOMPSON. It says when for the month of August, we expect to buy and make a firm bid to buy the following barrels of oil, various types, and various districts of the State. Then we add all of those up.

The CHAIRMAN. That is what they notify you as to the amount they desire, that they will purchase during that particular month?

Mr. THOMPSON. During the month of August, the next month, and we fix it, or hold the hearings during the month, say, the 18th, and then we will set the September allowable on the 18th of August.

The CHAIRMAN. Then, do each of the big companies, major companies, send in their recommendations of that kind?

Mr. THOMPSON. Each purchaser, big and little alike, and every refinery that buys oil and every shipper who wishes to ship oil, nominates how much they wish, and where they wish to get it, that is, what fields? That is all totaled and put out on a sheet for the commission, and for everybody in the hearings, and we run over about 250 of them.

The CHAIRMAN. That has nothing to do, then, with the efficiency rate of recovery, has it?

Mr. THOMPSON. This comes after your waste prevention.

The CHAIRMAN. That has nothing to do with that.

Mr. THOMPSON. Except that production in excess of market demand is a waste, in our statute, and it is forbidden.

Mr. HESELTON. I am not clear, General, as to whether in these monthly meetings you give consideration to things you call eliminating waste. I realize there are conservation measures, but is it not a

fact that month by month the major and perhaps the only consideration given to fixing the allowables for the next month, is the accumulated testimony as to nominations.

Mr. THOMPSON. No, all through the hearing you will find examples of waste evidenced, and we have hearings as many as 14 a day, and the average is about 14 a day, on specific fields, and all of the records of those special hearings, and all past records, are made a part of the proceedings in that current one. We have hearings on specific fields.

Mr. HESELTON. I am sure that I recall seeing a transcript of hearings. Would you be willing to send up to the committee the last six transcripts?

Mr. THOMPSON. Transcripts of the last six statewide hearings?

Mr. HESELTON. Yes.

Mr. THOMPSON. I will be glad to.

The CHAIRMAN. In that connection, so that we can get this story just as complete as it is possible, I would first, as I have already requested, I would like to have a copy of the Texas statute.

Mr. THOMPSON. That is right.

The CHAIRMAN. And then I would like to have a copy of the notice that is sent out.

Mr. THOMPSON. Notice of hearing, you mean?

The CHAIRMAN. That is right, and then I would like to have some sample of the return that you receive, either by personal representatives being present, or by communications.

Mr. THOMPSON. I will send you a copy of a complete return from every one. It is a pad about that thick [indicating].

The CHAIRMAN. After that has been done, then what happens next?

Mr. THOMPSON. Well, we have sent out the notice and we receive the nominations, and we have the hearing at which time the nominations are confirmed.

The CHAIRMAN. What do you mean by confirmed?

Mr. THOMPSON. By a witness, subject to examination by anybody in the crowd, and everybody asks questions in the hearing and anyone can get up and ask any witness a question, and it is kind of like an open town meeting.

The CHAIRMAN. What form does the question usually take, when a major company comes before you and states that in the coming month they will purchase so much oil and they would like to do it from that, or this or the other field? What would be the testimony that you would hear on that?

Mr. THOMPSON. Some people would say that company is seeking to get oil from fields in which it has most of the wells itself, and that is objected to because naturally if a man has the majority of production in a field, he would like to take strongly from that field. That is to deny all of the others. That is also objected to, and we take the total and then allocate the total among the fields of the State. That is in proportion as they are able to produce.

But first of all, when you get ready to make the order, after the hearing is finished and all of the testimony is in, we have to subtract from the amount of oil that is going to be allowed to be produced, say, 3 million barrels, a round figure, there is 475,000 from marginal wells that we are not allowed to prorate in any way, because they are

less than so many barrels for the department. That is less than 20 barrels for 3,000 feet.

A pumping well that cannot produce more than 20 barrels, for 30 consecutive days, is called a marginal well, and there is no restriction whatever on that. There are 485,000 barrels from those wells. That is subtracted from the total.

Then the balance is allocated fairly and ratably among the fields of the State, and then within each field it is prorated to each well.

The CHAIRMAN. Do you take the figures that are recommended to you, or do you change them?

Mr. THOMPSON. We try to make them as big as we can, and use the top figure, unless we have evidence of accumulated storage.

The CHAIRMAN. What source of information do you have as to the demand in that particular month, other than that which you get from the individuals who reply to your notice of hearing?

Mr. THOMPSON. We keep up through the press and the journals and the trade journals of all sorts and the reports of the Bureau of Mines, and especially the best key, Mr. Chairman, is the state of the stocks on hand. If your stocks are increasing, it shows you are producing more oil than is being consumed, of your oil, and if your stocks in storage are dropping, it shows you can increase.

Then the season has a good deal to do with it, because within the last 3 years the peak consuming season of oil has shifted from summer to winter, and we know those seasonal changes from past experience. Wintertime, since oil heating has become so greatly increased in number, wintertime now, the fourth and first quarters are the large consuming months. They drop off very perceptibly in the second and third quarter.

Mr. YOUNGER. Would you yield for just one question here, and it fits right in here and I would like to have the record straight on this.

In your statement you said that the State has a reserve producing ability of 600,000 barrels per day.

Mr. THOMPSON. Yes, sir.

Mr. YOUNGER. Now, is that reserve production in conformity with your conservation principles?

Mr. THOMPSON. There is that much more oil could be produced if we had the demand or the need.

Mr. YOUNGER. And still comply with conservation?

Mr. THOMPSON. At the most efficient rate; yes, sir.

Mr. YOUNGER. So that when you get the demand from these companies——

Mr. THOMPSON. The requests to buy.

Mr. YOUNGER. Anything up to 600,000 barrels more than you are producing now, you would allow?

Mr. THOMPSON. Gladly, and readily, and be happy to do it. If we could get anybody to sell it, but we can't drink it.

Mr. YOUNGER. That is all.

The CHAIRMAN. When you have received these recommendations, you say you look at trade magazines and other sources, newspapers——

Mr. THOMPSON. Yes, sir.

The CHAIRMAN. And calendars.

Mr. THOMPSON. Yes, sir.

The CHAIRMAN. What information could you get from them that would determine whether that particular company was going to buy that particular amount of oil.

Mr. THOMPSON. On nothing, not companywise.

The CHAIRMAN. What is the purpose of looking at those?

Mr. THOMPSON. That is determining total demand. If you see more automobiles in use, you know there is going to be more automobiles.

The CHAIRMAN. Is that with the idea that you will change the recommendations that have come to you from the several companies?

Mr. THOMPSON. Yes, we continue to stay with that.

The CHAIRMAN. Do you change their recommendations?

Mr. THOMPSON. We nearly always give them more than they want, and they are not unanimous in anything, Mr. Chairman.

The CHAIRMAN. No, but I am speaking now the total is made up of the individual recommendations; is it not?

Mr. THOMPSON. No, it is not.

The CHAIRMAN. What makes up the total?

Mr. THOMPSON. The first total that we have, we total the nominations, but that doesn't follow that we fix the allowables at the total nominations.

The CHAIRMAN. I did not say that. I said that that is the basic figure that you have to work on.

Mr. THOMPSON. We start working with that and then we look at the state of the stocks.

The CHAIRMAN. What better information can you get than from the companies themselves as to what they intend to purchase in that month?

Mr. THOMPSON. Well, that is pretty good information, except you get them up, a fellow will say he wants four times what he wants because if he can raise the allowable away up, he will get more oil out of his particular fields than from the State as a whole.

In other words, in order to satisfy some buyers, he would nominate five times what he wanted.

The CHAIRMAN. Then is the idea that you balance the nominations or recommendations, whichever you term them, with what you consider to be the demand for that particular month?

Mr. THOMPSON. Yes, our statute says the commission shall have the duty to ascertain the market demand.

The CHAIRMAN. Now, do you obtain the demand, your figure of demand?

Mr. THOMPSON. That is what I have been telling you, demand is nothing but what you can sell.

The CHAIRMAN. How do you get that?

Mr. THOMPSON. I have just told you how we did it.

The CHAIRMAN. I am sorry, I did not grasp it.

Mr. THOMPSON. We get nominations and we take testimony on those nominations, and then we look at the stocks on hand, of Texas crude, and if stocks are going down we increase the allowable, and if stocks are increasing, we decrease the allowables.

The CHAIRMAN. Then you have before you figures——

Mr. THOMPSON. The Bureau of Mines stocks.

The CHAIRMAN. That is figures not merely of the State of Texas, but elsewhere?

Mr. THOMPSON. The whole Nation, yes.

The CHAIRMAN. The whole Nation?

Mr. THOMPSON. Yes, sir.

The CHAIRMAN. Now, who makes up the figures that you use on that basis?

Mr. THOMPSON. We use the Bureau of Mines reports, they put out weekly reports.

The CHAIRMAN. Then it comes back finally to the figures of the Bureau of Mines?

Mr. THOMPSON. On stocks, I am talking about.

The CHAIRMAN. I am speaking about demand.

Mr. THOMPSON. We get this one estimate from the Bureau, which I have told you is an estimate, and we think it is an informed estimate and I have tried to pay tribute to it the best I could.

The CHAIRMAN. When they give you their estimate does it relate only to Texas, Texas crude?

Mr. THOMPSON. Yes.

The CHAIRMAN. Does the estimate from the Bureau of Mines relate only to Texas or to all of the producing States?

Mr. THOMPSON. The telegram they send us says it is estimated that Texas crude will be required for each and every day of August, so many barrels.

The CHAIRMAN. How does that compare with what you have received through your hearings?

Mr. THOMPSON. The nominations, you mean?

The CHAIRMAN. Yes.

Mr. THOMPSON. Well, they are never the same.

The CHAIRMAN. How far do they differ?

Mr. THOMPSON. I should be glad to send you, say, 6 Bureau of Mines' estimates, and the nominations for 6 months, so you can put them together, and I don't recall——

The CHAIRMAN. That would be very helpful.

Mr. THOMPSON. Then it would be right on the figure for you, and you would have the exact figures.

The CHAIRMAN. What figures do you accept; do you accept your figures based on that?

Mr. THOMPSON. We are not bound by figures and we try to figure out and use our best judgment according to the statute.

The CHAIRMAN. Now, let me ask you the question first: You consider the nominations that have been made; do you not?

Mr. THOMPSON. That is one item.

The CHAIRMAN. That is one item.

Mr. THOMPSON. Yes, sir.

The CHAIRMAN. Now, then, you consider what the Bureau of Mines says; do you?

Mr. THOMPSON. That is right. That is two.

The CHAIRMAN. Now, if there is a difference, how do you determine that?

Mr. THOMPSON. Well, we try to look at the most important things. I have also been emphasizing the status of stocks on hand.

The CHAIRMAN. Well, I take it you mean stocks in Texas or stocks generally?

Mr. THOMPSON. Stocks of Texas origin.

The CHAIRMAN. How is that?

Mr. THOMPSON. Texas origin crudes, this stock report that comes out each week, how much we have on hand, which I just gave up there to Mr. Hale, I believe it was.

The CHAIRMAN. When you get a telegram from the Bureau of Mines, does it only give you the amount to be produced in Texas, or does it also give you the amounts that are to be produced also in the other States?

Mr. THOMPSON. The telegram doesn't say anything about production, it says the market demand, estimated market demand for Texas crude for each and every day of the month of July, is so many barrels.

The CHAIRMAN. Do they give you the overall national demand?

Mr. THOMPSON. It doesn't say anything about production, it just says how much is needed, this can come either out of stocks or current production. They don't try to tell you what you must do, or how to do it. They just give you an estimate on what they think the market demand is going to be.

The CHAIRMAN. Well, it is difficult for me to understand how that kind of information going to the several producing States could be arrived at in an accurate way.

Mr. THOMPSON. I am sure the Bureau could tell you how they did it.

The CHAIRMAN. We will have to have the Bureau officials here.

Mr. THOMPSON. We had them down before us one time.

The CHAIRMAN. Because, it seems to me that there is a lot to what the gentleman from Massachusetts stated awhile ago, that the same effect is being arrived at by the operation of statutes either in Texas or in Oklahoma, and these different States, together with the Bureau of Mines, to accomplish a purpose that could not be done by these companies if they sat down around the table themselves, and yet that seems to me to be what the effect is. It is the same result.

Mr. YOUNGER. Will you yield for one question there?

To clarify the record, does the report from the Bureau of Mines give the demand, or does it give the stocks on hand?

Mr. THOMPSON. We have two reports. The telegram I was telling the chairman about comes once a month, and that tells us what their estimate of market demand for Texas origin crudes will be. That doesn't mean it must be produced; it can either come out of storage or current production or both.

Mr. YOUNGER. Now, your other report is what?

Mr. THOMPSON. That comes out weekly and it shows the status of stocks of various originating crudes.

Mr. YOUNGER. And it shows the stocks of Texas crude for any place in the United States.

Mr. THOMPSON. Yes; because it carries its name right on there.

I should be glad to furnish one of those along with the other information for the committee.

Mr. HESELTON. What, if any, consideration do you give to estimated imports?

Mr. THOMPSON. We take a look at them, and we have to, because if they imported as much as the whole United States produced——

Mr. HESELTON. Where do you get it from?

Mr. THOMPSON. We get that information from the Bureau of Mines each week, or monthly, and it gives the past month, and generally

they are about a month behind and you get it out of the newspapers, and I get it out of this little oil daily published in Chicago and I subscribe to that.

Mr. HESELTON. You take the record of imports of the preceding month, or do you take an estimate of the imports for the next month?

Mr. THOMPSON. We have been getting reports from the companies on what they expected to import because they have been jumping up the imports perceptibly, and our operators, of course, didn't like it because it meant reduction in allowables.

In the fourth quarter of 1952 imports jumped 45 percent over the fourth quarter in 1951. That was a pretty large jump.

Mr. HESELTON. Do the companies actually submit to you their estimated imports for the following month?

Mr. THOMPSON. Yes.

Mr. HESELTON. So there again it goes straight back to the fact that the companies control the basic information?

Mr. THOMPSON. The companies didn't rush up to us and give us the figures. We had to get them down there before us and we had them on the witness stand.

Mr. HESELTON. What I say is the companies, through furnishing these reports of stocks to the Bureau of Mines and in furnishing the nominations to the Texas board and to the other boards, and in furnishing information as to what they intend to import, control basic information.

Mr. THOMPSON. Who else could tell you how much stocks there is on hand?

Mr. HESELTON. Is that not true, though?

Mr. THOMPSON. Who else could tell you how much stocks they have except the follow who has it in his tank?

Mr. HESELTON. Exactly.

Mr. THOMPSON. You can't reach up in the air and get it. I couldn't.

Mr. HESELTON. That is right. They still control the basic information.

Mr. THOMPSON. That is right. You can state it any way you wish, but I am telling you how we do it.

The CHAIRMAN. I regret that there is a call of the House that will necessitate our recessing.

Mr. THOMPSON. May I be excused?

The CHAIRMAN. During the recess?

Mr. THOMPSON. To go home. I have got work to do, Mr. Chairman.

The CHAIRMAN. You know we do not often get a witness before us who is as well informed as you, and do you realize that your 20 years of experience qualifies you in a way no other witness that we have before us does, and do you realize that the sincerity with which you speak and the frankness with which you answer our questions is such that we cannot let a man like you go.

Mr. THOMPSON. I give up. All right, I will have to stay.

The CHAIRMAN. We will recess until 2 o'clock.

(Thereupon, at 12:10 p. m., the committee recessed, to reconvene at 2 p. m., same day.)

AFTER RECESS

The CHAIRMAN. The committee will come to order.

I think when the session ended this morning we were endeavoring to get a statement that would show the exact procedures under which the allowables were fixed. I don't remember just how far we had gotten. It seems as if we got off on divergent lines at times. But I think we can soon pick up where we were.

If I remember correctly, I was endeavoring to ascertain how you determined from the figures that you got from the Bureau of Mines as to just what should be the allowable in Texas as compared to other States. Just how is that done? Do you know in Texas that it should be so many barrels, and that Oklahoma knows theirs should be so many, and the different States, or just how does that come about?

STATEMENT OF ERNEST O. THOMPSON, CHAIRMAN, THE TEXAS RAILROAD COMMISSION—Resumed

Mr. THOMPSON. Mr. Chairman, we do not take into consideration what the other States are doing. In Texas we just consider the outlet for Texas oil. As you remember, we had gotten through the notice and the nomination, and the hearing and the testimony down to the point where you asked me how we finally decided how much oil to be allowed to be produced in Texas each day. I had said that we considered the Bureau of Mines estimate as a help and aid, as an estimate of how much oil would be needed from Texas. Then we had the report of the Bureau of Mines, the weekly report, as to how much stocks were on hand and whether or not the stocks were declining, being withdrawn from storage or whether they were building up. We take the Bureau of Mines estimate which we have many times asked them and had answers from them, that that is in no ways a directive or order. It is simply their best judgment as to the amount of crude of Texas origin that would be needed each day the following month. We have asked them specifically if that oil was to come from current production or out of storage. They have repeatedly told us that that was not of their concern, but just their best estimate of how much oil would be needed. It could come either out of storage or current production or a combination of both. So then after we have how much oil is wanted to be bought and how much the Bureau thinks should be produced or will be needed, then we look at the stock figures and if they are going down, we figure they will be needing as much oil the Bureau has said would be needed, plus the storage should be built up a little bit more, we would add more than the Bureau said.

If we think the Bureau figure is about right and stocks are piling up, we may allow less than the figure so the stocks can be worked down. The commission goes into conference after all the testimony has been had, and decides on about what the figure will be. We don't exactly decide on the number of barrels, we decide on the number of days operation that will furnish that amount of oil and we always try to furnish more instead of less than the amount of oil required.

One thing that apparently the Bureau does not take into account is the production of natural gasoline and distillates which, in Texas today is 414,571 barrels per day, which is more oil than any State produces, save 5: California, Louisiana, Oklahoma, Kansas, and Texas,

414,000 barrels of natural distillates. It really means more than that many barrels of crude because a distillate is partly refined. It comes out of the ground with high gravity.

So that should be added to it. Last month, for example, when you add the distillates to it, our allowable over the Bureau of Mines figure is 346,920 barrels per day, which certainly should be ample.

The CHAIRMAN. I have before me a telegram that Congressman Wright Patman inserted in the Congressional Record as of March 21, 1946. Your telegram, reading in part as follows:

Our commission is of the opinion that OPA price controls are no longer necessary in the oil and petroleum products line. There are huge surpluses of crude in storage and top heavy surpluses of gasoline. Today finished gasoline is running over the tanks and piling up wastefully.

The question I would like to ask in that connection is this: In view of your opinion at that time, can you explain why it was that crude oil prices jumped from $1.25 a barrel at a time of your communication to $2.65 a barrel within a period of 18 months, that is between April 1, 1946, and December 7, 1947.

Mr. THOMPSON. No, sir. I do not have any opinion on that. I do not have any explanation of it because there was an ample supply, as I indicated in my telegram.

The CHAIRMAN. Would it seem to you, then, that price does not depend entirely upon supply and demand?

Mr. THOMPSON. Price does not depend entirely upon supply and demand; no, sir. The price of oil, that is. Because you have to consider the cost of drilling and producing as well as supply and demand.

The CHAIRMAN. In that 18 months there was a jump of nearly three times, two and a half times. Had there been such an increase in cost to justify a jump of that kind at that time?

Mr. THOMPSON. Mr. Chairman, I hope you understand that we get no figures on cost reported to us. We have no reason to consider cost. But out of general opinion, and general knowledge, I know that costs have increased quite considerably.

The CHAIRMAN. I had hoped that because of your large experience in connection with the oil industry, and in view of that statement that I read, which you made, which for instance, "Today finished gasoline is running over the tanks and piling up wastefully," that you might be able to give some explanation of why the price would jump from $1.25 a barrel to $2.65 in a period of 18 months.

Mr. THOMPSON. What was the date of that, 1946?

The CHAIRMAN. The date of 1946 was between April 1, 1946, to December 7, 1947. Your telegram was dated March 21, 1946.

Mr. THOMPSON. Had we not had during the war period a pegged price all during the period? Had we not?

The CHAIRMAN. I assume we had, because you take the position here that the commission is of the opinion that OPA price controls are no longer necessary.

Mr. THOMPSON. Since there was an abundance of crude, I think it was a sound telegram and I am still of the same opinion.

The CHAIRMAN. It indicated that you had some knowledge of price or you would not have advised that in your opinion the OPA price controls were no longer necessary because there was a sufficient supply to meet demand and more supply than was necessary.

Mr. THOMPSON. That is exactly right.

The CHAIRMAN. Then you did have some idea about price at that time.

Mr. THOMPSON. Yes, I am sure I did. But I am talking about the exact figures of cost increases. Since they do not report them to us, Mr. Chairman, I know generally that they have increased.

The CHAIRMAN. But you are not able, in view of your statement in the telegram and what happened afterward, to give any explanation to this committee of that increase?

Mr. THOMPSON. About the increase in price? No, because I have nothing to do with that. I know we have plenty of gasoline on hand.

The CHAIRMAN. I realize you have nothing to do with it, but I thought maybe you could express the opinion.

Mr. THOMPSON. I do have very definitely the opinion, and I feel of general knowledge that the cost of drilling has increased greatly, principally because we have had to drill deeper, and every time you drill deeper the cost goes up geometrically, instead of arithmetically.

The CHAIRMAN. Then at the time you sent that telegram, you realized that if they were taken off, the price would go up?

Mr. THOMPSON. I hoped that would, yes, sir.

The CHAIRMAN. As much as they did?

Mr. THOMPSON. I don't know how much.

The CHAIRMAN. It went up from $1.25 to $2.65 in a period of 18 months.

Mr. THOMPSON. I have an idea that was arrested development that should long prior thereto have happened. A pent up cost piling up. My whole concern, as I explained earlier in the testimony, is to have an adequate reserve supply in case of war. We must have that, and you could not have it if you have a diminishing—I mean an increasing—cost at the same price. But I cannot give you definite figures because they do not report to us on price. It is not within our scope of inquiry.

The CHAIRMAN. Now may I call to your attention a statement in the Federal Trade Commission report on the international petroleum cartel as given to the Senate Small Business Committee at the 2d session of the 82d Congress, committee print No. 6, page 214:

> The basic method of proration of domestic production developed under the interstate coal compacts includes: (1) preparation by the Bureau of Mines of the Interior Department of a monthly forecast of the total quantity of domestic crude oil which, added to expected imports, will supply the quantity of crude oil and petroleum fuel products estimated to be needed for domestic use and an export during the ensuing month. (2) State authorities follow these estimates in determining the total allowable production for their respective States. (3) Each State authority then allocates its total allowable production to the various producing fields and wells within its political jurisdiction.

Is that a correct statement of how proration works?

Mr. THOMPSON. No, sir; not at all.

The CHAIRMAN. In what particular would you differ with it?

Mr. THOMPSON. It makes an inference that there is some kind of an insidious scheme worked up, which is not a scheme at all. The Bureau of Mines gives an estimate of what the imports are going to be, and what the demand is going to be. That is a factual statement. They do that, just as I have outlined here today. But I don't know of any connection with any cartel, just because the Bureau of Mines puts out a report on what the expected demand for crude is going to be from a particular State.

The CHAIRMAN. Pardon me.

Mr. THOMPSON. Then the next thing it says the State authorities follow this. We use it as the best guide we can, but we examine it carefully in the light of the buyers in our area, and I am sure we have many, many buyers that are not affected at all by any big company plan. I read that long Tariff Commission report. There they seek to buld up some terrible scheme and said it was conceived in some Scottish castle, and goes right down to the proration authorities of each State. I never have been able to see how ayone could build up such a scheme as that, when I know how it worked out in our State. And you, Mr. Chairman, helped us work it out in Texas.

Mr. HESELTON. May I inquire?

The CHAIRMAN. Yes.

Mr. HESELTON. What would be the effect, General, if a law were passed prohibiting the Bureau of Mines to make these estimated demands?

Mr. THOMPSON. It wouldn't affect us at all.

Mr. HESELTON. It would not affect you at all?

Mr. THOMPSON. No. We would just have one less guide to help us. But we would go ahead and use these stock figures, Mr. Congressman.

Mr. HESELTON. I am saying you suppose the Bureau of Mines is prohibited from furnishing stock estimates or anything else in this field.

Mr. THOMPSON. Not put out any stock figures even?

Mr. HESELTON. Yes.

Mr. THOMPSON. I don't see why we should be denied the information on how much stock we have on hand, any more than we would be denied the number of bales of cotton carried over from last year.

Mr. HESELTON. You do not have the same situation in fixing the price of cotton. What I am trying to get at is if these activities on the part of the Bureau of Mines were eliminated so that you did not have that information, do you then think that companies might be concerned in making their nominations; that they would be then violating the antitrust laws?

Mr. THOMPSON. If the companies in response to a legally constituted authority like our commission answered how much oil they would buy, no, they would not be violating any law. We would get along the best we could without the Bureau of Mines.

Mr. HESELTON. Would you be perfectly willing to have the Bureau of Mines eliminate those activities?

Mr. THOMPSON. I wouldn't be willing to do it, but I say we could get along and probably do a fairly good job. It is best to have as many aids as you can, just like in navigation. I wouldn't say throw it away, because I have expressed my gratitude for it. But if you say fight to take it away, we would go ahead and operate under our State law.

Everything I have said here is what we do under a valid State statute, tested in many cases in our courts. All we do is administer the statute. We stay strictly with the statute because we have found every time we vary a word from it, we get stricken down.

For example, we have just finished a case called the Sprayberry case in west Texas, where there was 220 million feet of gas being vented into the air, in a new field where the pipeline, connections have

not yet been made, and there were no connections for the flare gas that came with the oil, no pipeline. So we shut the field in completely, until the gas could be utilized. The court said 4 weeks ago in its opinion that the statute of Texas did not use the word "completely" shut in, so we couldn't shut the wells in completely. So we shut them in 11 days instead of completely. What we were trying to do was to protect correlative rights of the owners who did not have a gas pipeline connection for their flare gas.

There were 1,100 wells that had connections and 1,200 that did not. To let the 1,100 produce their oil and drain from the 1,200 that did not have gas connections for their vented gas, in our opinion would do violence to the law of protecting correlative rights, because they would be draining from their neighbors underground.

Mr. HESELTON. The commission was proceeding in that case on a purely conservation basis?

Mr. THOMPSON. Surely, waste prevention.

Mr. HESELTON. And that case is still being contested, is it not, further on the appeals?

Mr. THOMPSON. The supreme court decided it 3 weeks ago against our commission.

Mr. HESELTON. The United States Supreme Court or the Texas court?

Mr. THOMPSON. No, in Texas. It will not go to the Federal Court. There is no Federal question involved. The Federal court said in the Pullman case that 9 years of needless delay had been caused in efforts of conservation because lower Federal courts were taking jurisdiction when they should leave it to the States, because ample review was furnished in the Supreme Court of Texas. So we had 9 years of confusion because we were constantly having injunctions in the Federal district courts.

Mr. THORNBERRY. Mr. Chairman, I realize the chairman has a policy of not going too far on this, but I wonder if he would yield for one observation. I am sure the gentleman from Massachusetts, my colleague, would not want to leave the impression that the estimates furnished by the Department of Agriculture on the production of cotton has nothing to do with limiting production. The law passed by the Congress provides that when it is estimated a certain number of bales will be produced, the Secretary of Agriculture shall impose quotas on production, and shall limit production, if cotton prices are going to be supported.

The CHAIRMAN. I think he was referring to the cotton raised in Massachusetts.

Mr. THORNBERRY. I see.

Mr. HESELTON. I am happy you brought that out.

Mr. THORNBERRY. Thank you, Mr. Chairman.

The CHAIRMAN. General, you said that you differed with the statement that I read from the report of the Federal Trade Commission.

Mr. THOMPSON. I read the report.

The CHAIRMAN. I was not aware from what I read to you a moment ago whether it was any different from what you have testified to this morning. There is no reference to cartel in what I read to you.

Mr. THOMPSON. I read the whole report, Mr. Chairman.

The CHAIRMAN. All right. Let us take this: You said that your opinion was very much different from this. Let's see where you differ. I will read it sentence by sentence:

First:

The basic method of proration of domestic production developed under the interstate oil compacts includes (1) the preparation by the Bureau of Mines of the Interior Department of a monthly forecast of the total quantity of domestic crude oil which, added to expected imports, will supply the quantity of crude oil and petroleum fuel products estimated to be needed for domestic use and export during the ensuing month.

Is that not about what you have said?

Mr. THOMPSON. Not at all. It starts out with the wrong premise. It says the interstate-oil-compact method of—what was it? What were the words? The interstate-oil-compact method?

The CHAIRMAN. No; I merely said the basic method of proration of domestic production developed under the interstate oil compacts includes.

Mr. THOMPSON. Yes, sir. Well, the interstate oil compact does not touch that top, side, or bottom, and that does not touch the interstate oil compact in any way. The interstate oil compact in article I sets up what the agreement is.

This agreement may become effective——

The CHAIRMAN. I am speaking about the basic method.

Mr. THOMPSON. There is no basic method in the interstate oil compact about any kind of proration.

The CHAIRMAN. I did not say it was in the act. I said it was developed under——

Mr. THOMPSON. The interstate oil compact commission did not develop any method at all. We were doing this before the compact was ever created in Texas.

The CHAIRMAN. I do not see the significance. If the balance of the statement is correct, that is what I am interested in, more than I am in that preliminary clause.

Mr. THOMPSON. The preliminary clause is the dangerous part. It ties some insidious thing to the compact which the compact does not have a thing to do with.

The CHAIRMAN. So that there will be no misunderstanding, I will let you look at that and then you read it and tell me where you differ in it.

Mr. THOMPSON. Yes, sir.

In the first place, Mr. Chairman, it says, "The basic method of proration of domestic production developed in the interstate compact includes." Now, the compact does not touch it anywhere. The compact says (1) the States shall have statutes forbidding the operation of any well within an inefficient gas-oil ratio; (2) the drowning with water of any stratum capable of producing oil or gas or both oil and gas in paying quantities; (3) the avoidable escape into the open air or the wasteful burning of gas from a natural-gas well.

Under (*d*) the creation of unnecessary fire hazards.

(4) The drilling, equipping, locating, spacing, or operating of a well or wells, so as to bring about physical waste of oil or gas, or loss in the ultimate recovery thereof.

And (*f*) the inefficient, excessive, or improper use of the reservoir energy producing any well.

The enumeration of the foregoing subjects shall not limit the scope of the authority of any State.

That is all there is to the compact.

The CHAIRMAN. All right.

Now, read what I put before you.

Mr. THOMPSON. It says:

The basic method of proration of domestic production developed under the interstate oil compact includes.

The CHAIRMAN. Is there anything there that says that that is——

Mr. THOMPSON. Sir?

The CHAIRMAN. Is there anything there that says that that is in the compact law?

Mr. THOMPSON. It says developed under the interstate oil compact.

The CHAIRMAN. It is a practice; it is a custom.

Mr. THOMPSON. We were doing it before the compact was ever created in Texas. The compact was created in 1935.

The CHAIRMAN. Let us pass on to No. 1.

Mr. THOMPSON (reading):

The preparation of the Bureau of Mines of the Interior Department of a monthly forecast of the total quantity of domestic crude oil which, added to expected imports, will supply the quantity of crude oil and petroleum products estimated to be needed for domestic use and exports during the ensuing months.

The CHAIRMAN. Is that a correct statement?

Mr. THOMPSON. No, with this exception. It is correct except that the States decide themselves what they will produce and not what the Bureau tells them to do.

The CHAIRMAN. I did not know it says that the Bureau tells them.

Mr. THOMPSON. The preparation by the Bureau of Mines.

The CHAIRMAN. Just read the words that indicated to you that the Bureau told them what to do.

Mr. THOMPSON. It says in the second paragraph that the State authorities——

The CHAIRMAN. We are talking about the first paragraph.

Mr. THOMPSON (reading):

The preparation by the Bureau of Mines of the Department of the Interior of a monthly forecast of the total quantity of domestic crude oil which, added to expected imports, will supply the quantity of crude oil and petroleum fuel products estimated to be needed for domestic use and expected exports in the ensuing months.

The CHAIRMAN. In other words, paragraph 1 is correct.

Mr. THOMPSON. The preparation. It says they do prepare. But it is not a part of a system.

The CHAIRMAN. That is what I am trying to get into your mind. No. 1 is all right. Now read No. 2.

Mr. THOMPSON (reading):

State authorities follow these estimates in determining the total allowable production for their respective States.

The CHAIRMAN. Is that right or wrong?

Mr. THOMPSON. It is wrong.

The CHAIRMAN. You don't follow them at all?

Mr. THOMPSON. We use them as an indication, but only as an indication. We have a right to exercise our own judgment and we do do it. I am not going to sit here and tell you we do something we do not do, Mr. Chairman. You wouldn't want me to do that.

The CHAIRMAN. I wouldn't want you to. Now take No. 2.

Mr. THOMPSON. I don't want to be led into saying something I don't do.

The CHAIRMAN. Now, take No. 2 and change the word "follow" to "use" and see if you will agree with it then.

Mr. THOMPSON. I will change it to the way we do it. The State authorities respectfully receive these estimates and give them such value as they think they are worth, follow them when they please, disregard when they please, because that is the right of a sovereign State. We do not take dictation or domination.

The CHAIRMAN. In other words, you do not follow them, you just use them.

Mr. THOMPSON. When we get ready. If they are right, we use them.

The CHAIRMAN. Your word is that you use them instead of follow them; is that right?

Mr. THOMPSON. We lay them before us and consider them. It doesn't mean we follow them.

The CHAIRMAN. No, but I was just trying to get it into the language that you used, and you used that word "used."

Mr. THOMPSON. We use them along like we use a piece of paper and pencil, or the tools of the trade, if you wish. We get all the information we can, including the weather.

The CHAIRMAN. Now read No. 3.

Mr. THOMPSON. No. 3. I hope I am not arguing with the chairman. I have the greatest humility here.

The CHAIRMAN. I have had so many arguments in my life that one more argument won't make a bit of difference.

Mr. THOMPSON. I don't want to argue with you.

The CHAIRMAN. You and I are good friends whether we agree or not agree. I have a great deal of respect for your judgment or I wouldn't bother asking you these questions.

Mr. THOMPSON. I feel ill at ease when I feel I am displeasing you, Mr. Chairman.

The CHAIRMAN. I want you to feel there is a feeling of hospitality here the same as I have always experienced when I have gone to Texas.

Mr. THOMPSON. You shall always have it.

(3) Each State authority then allocates its total allowable production to the various fields and wells within its political jurisdiction.

I would say that each State exercises its sovereign jurisdiction to do as it pleases with its production in consonance with its legal statutes.

The CHAIRMAN. That is what it says.

Mr. THOMPSON. No, it doesn't say that. It says each State follows it. We exercise our own jurisdiction.

The CHAIRMAN. They should have said each State uses it instead of follows it.

Mr. THOMPSON. No, I just don't like the connotation that goes along with it, that we are being told to do something. We like to think we are doing like we please, down our way, in conformity with the statutes, limited by them and expressly held to them by the courts.

The CHAIRMAN. I am sorry. I thought you agreed with it.

Mr. THOMPSON. I don't. I hate to disagree with the chairman. It breaks my heart. Really it does. I just hate to.

The CHAIRMAN. Do not let that worry you.

Now, as long as we are talking about 1946 and the telegram that I referred to, let me refer to something else. The New York Journal of Commerce on April 12, 1946, reports from your address on the antitrust laws before the meeting of the Interstate Oil Compact Commission in Tulsa, Okla., you are quoted as saying:

> The oil compact cannot legally consider price.

I assume that is still your position?

Mr. THOMPSON. Yes, sir; always since the beginning of it.

The CHAIRMAN. No matter what is done that affects price, you could not fix prices?

Mr. THOMPSON. They cannot consider price, and they never have, in my knowledge, and I have been with it since its creation.

The CHAIRMAN. The article further quotes you as saying:

> The oil compact is by law permitted only to consider waste prevention in the production of oil and gas.

By "waste," do you mean any production in excess of estimated market demand?

Mr. THOMPSON. Yes, sir; because that is wasteful through evaporation and leakage, physical waste. You keep it in storage long enough, you would have to take an ax to chop the tank down to get it out.

The CHAIRMAN. Does your commission have any means of determining the market demand from a national standpoint in order to determine how much of that national demand you should supply, the State of Texas?

Mr. THOMPSON. The national demand? Well, we have the authority to get reports of any kind that we can conceive of. We can take the number of automobiles in use, the number of tractors in use, the number of diesel engines in use, and pretty well calculate the requirements for crude.

The CHAIRMAN. For instance, when you fix the allowables, we will say, for next September, do you have any facilities for determining what the national demand will be in September?

Mr. THOMPSON. Well, we keep up pretty well with conditions.

The CHAIRMAN. Well, from whom do you get that information?

Mr. THOMPSON. You get it out of the press, the journals of trade. We get about a dozen different journals that come in affecting the use of petroleum. For example, we have a very great increase in butane and propane use, and we keep up with those installations. There has been a great increase in the installation of oil heating and we can read and see how many new installations have been made. As I said this morning, there have been so many heating installations installed in the last few years that the peak of the petroleum requirements have shifted in summer, where it used to be from July 4, to Labor Day, and now it is in the wintertime. A lot of people do not realize that the heavy-petroleum-consuming season is now in the winter rather than summer.

The CHAIRMAN. Do you have any means of determining, on the basis of national demand, the amount that is to be produced in Texas?

Mr. THOMPSON. Do you mean do we have any method that we could say how much of that market we should claim?

The CHAIRMAN. That is right.

Mr. THOMPSON. Well, we know what the total reserves of the Nation are, and we know what the total consumption of the Nation is, and we could balance consumption against reserves. We are very well informed, the industry is, on what the reserves of the Nation are. There are 32 billion barrels at the moment. We thought we were running out of oil, you know, after World War I, had 5 billion barrels in reserve. Since that time we have consumed 26 billion out of that 5, and have 32 billion on hand. So we have been discovering more oil as times goes on. We keep those figures in mind.

The CHAIRMAN. What happens to price when your estimates fall below the full and actual demand?

Mr. THOMPSON. I don't believe we have hit below the demand. We have been pushing it up. The records show that we have gone from 740,000 to 2,800,000 in 20 years, always upward.

The CHAIRMAN. Back there in that telegram that you sent, you indicated that there are huge surpluses of crude in storage, and top-heavy surpluses of gasoline, and today finished gasoline is running over the tanks and piling up wastefully.

Mr. THOMPSON. That is right.

The CHAIRMAN. What happens when you have more than you can use?

Mr. THOMPSON. You don't produce so much for a while and use it up, work it off, work off the overhanging stocks.

The CHAIRMAN. It never has any effect on price?

Mr. THOMPSON. No; you just work off the overhanging balance.

The CHAIRMAN. No; I know you don't control the thing directly, but I am wondering how far the action of State commissions in fixing the allowables indirectly, at least, has an effect on price.

Mr. THOMPSON. If we fix it at the market demand, all the market demands, according to my economics, you never would have a price increase, if you just had market demand and supply only to consider. But there is another element that that thinking does not include; namely, the cost of producing. And if it costs you more to produce it than you get for it, you have to raise the price.

Mr. HESELTON. Mr Chairman, would you yield on that point?

The CHAIRMAN. Yes.

Mr. HESELTON. General, would you admit that the crude-oil market is a regulated one as a result of production restrictions or State conservation commissions?

Mr. THOMPSON. I beg your pardon.

Mr. HESELTON. Would you admit that the crude-oil market is a regulated one as a result of the production restrictions of the State conservation commissions?

Mr. THOMPSON. No; that is a false statement.

Mr. HESELTON. That is a false statement?

Mr. THOMPSON. Yes, sir.

Mr. HESELTON. May I then, Mr. Chairman, insert in the record at this point an editorial entitled "Petroleum Comments" by W. M. Jablonski, of the Journal of Commerce, of this day? I want to read a portion of it. [Reading:]

There is little doubt that the oil industry—particularly the major companies—came out quite poorly at the congressional hearings into the oil-price rises.

The unfavorable publicity generated at the House Commerce Committee probe has been injurious to the industry, and probably has undone a good part of the petroleum public-relations campaign of the past few years.

Why did things go so badly?

And then she pays respect to yourself and myself.

Mr. THOMPSON. I should like to correct the word "false," Mr. Chairman, to say that is a misstatement. It is a lady saying it; it is not correct. I used the word "false," and I don't like the word "false."

Mr. HESELTON. You can change it to incorrect. [Reading:]

But most impartial observers will probably also agree, we think, that there was more at fault than a biased forum alone.

Somehow, the industry leaders who testified failed to present their facts and arguments in such a way as to fully clarify—even for an impartial or sympathetic audience—the basic question of why crude-oil prices advanced in a surplus market.

The industry witnesses put almost all their emphasis on the increased costs of finding, developing, and producing new crude reserves.

Then referring to the crude competitive market, she said, as follows:

It is generally incorrect, however, to apply this economic axiom to the crude-oil market—where production is regulated to "market demand" by State conservation commissions.

But industry witnesses, on the whole, failed to face this issue squarely. They failed to explain or fully discuss the nature of the crude-oil market. On the contrary, there was even some tendency to becloud the issue and to claim that crude-oil markets are fully free.

As a result, the industry appeared in a somewhat inconsistent position of maintaining, on the one hand, that there is a completely free interplay of forces of supply and demand in the crude-oil market and at the same time claiming that replacement costs are a controlling factor in determining the market price. Under the onslaught of hostile forces, the position of the defense witnesses appeared more and more untenable as the hearings progressed.

Then, and this is the point I drew your attention to. [Reading:]

If it were frankly admitted that (1) the crude-oil market is a regulated one as a result of the production restrictions of State conservation commissions, (2) crude-oil regulation is vital to the national interest (as indeed the courts have repeatedly ruled), and (3) full and prompt replacement of reserves produced can proceed only with proper economic incentives—then it becomes clear that the elements of costs are much more of a determining factor in setting the price for crude oil than is the case with other commodities traded in completely free markets. And the oil industry's position would make a lot more sense.

That is from a person who, I think, is recognized as a very competent person.

Mr. THOMPSON. She is a very fine writer.

Mr. HESELTON. And she is not unfriendly to the oil companies in any sense of the word. That is all, Mr. Chairman.

The CHAIRMAN. We certainly have recognized the lady considerably during these hearings.

Mr. THOMPSON. She is a very fine lady. The opinion she takes—in saying we are fixing the market, she is taking on a good deal of authority. We don't do that in Texas. We have laws to enforce and we just enforce the law, nothing more.

I will say so far as Texas is concerned, that statement is incorrect, when she says it is a regulated market. We do regulate production to prevent waste, and we do regulate it to market demand, but that is our law and we are sworn to uphold the statute of the State, and it is protecting a natural resource of the State of Texas to pre-

vent waste. I have no argument with the lady's argument at all. I think she is a lovely person. But when the Congressman asked me if I agreed with the statement, I think not.

The CHAIRMAN. I think, General, where you misunderstand the purport of questions that are asked by my colleague from Massachusetts, and maybe by myself, so as to understand our position, is the fact that you seem to think that if the law calls for it, therefore it is all right.

Mr. THOMPSON. Our State law.

The CHAIRMAN. What we are trying to find out is whether the force of these laws that you speak of, your own law in the State of Texas, and whether the other laws that have come into this discussion, the compact laws, and the Bureau of Mines and their jurisdiction, and all that sort of thing—no one denies that it is the law—what the committee is endeavoring to seek and find out is whether those laws have the effect on price that is detrimental to the consumer's interest. We are not saying that it is not the law. We are not saying that you are acting under the law. We are merely asking or making inquiries to try to find out whether, in the operation of those laws, they act detrimentally to the consumer interests.

Mr. THOMPSON. Then would you change the Texas statute?

The CHAIRMAN. I would not. I would leave that to Mr. Thornberry to do.

Mr. THOMPSON. I am just an administrator, you see. And I try to carry it out faithfully.

The CHAIRMAN. That is the point I am trying to make, that our questions are not directed to you from the standpoint that you haven't fulfilled your duties, because you have.

Mr. THOMPSON. That is all I was worried about.

The CHAIRMAN. Nobody ever has said that.

Mr. THOMPSON. I thought I was doing something wrong in your opinion.

The CHAIRMAN. In fact, a very big man in our Congress, from your State, a former Speaker—I had lunch with him today—told me that he thought you knew more about oil than anybody else he knew of. I think that is a high compliment, and I think there was a great deal of truth in what he said. So when we ask you these questions, do not get the idea we are just arguing. We realize as a witness you can give us information. We are only hoping to get some knowledge that we don't have at the present time. That is all.

Now, may I go back, again, to these several statements that you have made.

In September 1948, the September 2 issue of the New York Journal of Commerce, you are quoted as having denied charges that the Interstate Oil Compact Commission seeks to force higher prices for crude oil by limiting production, and quoting you as saying, "This has not been done or even attempted or contemplated by the commission."

Now, you have reiterated that statement, practically, today.

Mr. THOMPSON. I do now reiterate it.

The CHAIRMAN. Yes. Is not the result the same, namely, higher prices, whether you have that thought in mind or not when you underestimate the demand and thus produce less than is needed?

Mr. THOMPSON. I don't say we underestimated the demand and ever produced less than was needed at any time.

The CHAIRMAN. If you did, it would affect prices, would it not?

Mr. THOMPSON. If we did, it would be maladministration.

The CHAIRMAN. No; it might be just a mistake of judgment.

Mr. THOMPSON. A mistake of judgment, which would be bad administration.

The CHAIRMAN. There would not be any malfeasance.

Mr. THOMPSON. I did not say malfeasance, just bad administration.

The CHAIRMAN. Whether the mistake is one that is honestly made, or whether it is the result of collusion, or otherwise, the fact remains, does it not, that if you produce less than is needed, it will affect the price?

Mr. THOMPSON. If you produced how much less than was needed?

The CHAIRMAN. Well, enough to make a difference.

Mr. THOMPSON. If you produced enough less to change the price, the answer would be less, of course. If you produced so little. But if you have a lot of margin, you have to tell me how much crude you have in storage. We have 279 million barrels of crude, and 144 million barrels of gasoline. If you got it down to where you had only a day or two supply, we have about 41 days' supply on hand.

The CHAIRMAN. Coming back, then, with that answer you have just given, were not the price increases from April 1, 1946, to December 7, 1948, a direct result of some one or some group's underestimating the demand?

Mr. THOMPSON. I say "No."

The CHAIRMAN. What do you base that upon?

Mr. THOMPSON. Because I know we have not done it.

The CHAIRMAN. I did not say that you or anybody did. I made it very indefinite. I said would it not be the direct result of someone or some groups underestimating the demand.

Mr. THOMPSON. No; because the other causes than supply and demand are in the price of oil. The price of drilling wells, and dry holes.

The CHAIRMAN. You think that demand sufficient to meet supply is an important element?

Mr. THOMPSON. One element, but cost of production is another.

The CHAIRMAN. Then in that period you say it was cost of production and not underproduction?

Mr. THOMPSON. I am not a student of those periods, Mr. Wolverton. You are pinning me down to a period in cost increase.

The CHAIRMAN. Maybe we will have to get more direct testimony on just what those period were. But I think you will confirm what I have said, that there was underproduction for the demand in that particular time.

Mr. THOMPSON. But there are other elements besides supply and demand, namely, cost, deeper wells, dry holes, many casts in the industry besides supply and demand.

The CHAIRMAN. The publication Compact comments, volume III, No. 6, put out by the Interstate Oil Compact Commission on June 1, 1948, quotes you as having told the International Petroleum Congress at Tulsa, Okla., on May 18, 1948, that the oil industry will meet the crude-oil demand for crude in an orderly fashion if left unhampered by Government interference.

Would you consider it Government interference to take additional action beyond the provisions of article 5 of the compact, to protect

the consumer from the increased prices resulting from underestimating demand. Increased prices are just as burdensome on the consumer whether arrived at by collusion or by faulty statements.

Mr. THOMPSON. Is all of that my statement that you read?

The CHAIRMAN. No. I thought you would recognize your statement.

Mr. THOMPSON. Well, just a part. I would have to get the whole context.

The CHAIRMAN. The part of your statement that I read was this: "Will meet in an orderly fashion if left unhampered by Government interference." That is the quotation.

Do you remember say that?

Mr. THOMPSON. What is the question?

The CHAIRMAN. Would you consider it Government interference to take additional action beyond the provisions of article 5, in the compact to protect the consumer from the increased prices resulting from underestimating demand, having in mind whether the underestimating was by collusion or by faulty estimates?

Mr. THOMPSON. That would not be undue Government interference.

The CHAIRMAN. It would not?

Mr. THOMPSON. It would not. The public interest would require it.

The CHAIRMAN. We are agreed. Article 5, which I referred to in part reads, "It is not the purpose of this compact to authorize the States joining therein to limit the production of oil or gas for the purpose of stabilizing or fixing the price thereof."

In April 1944 at the New Orleans meeting of the Interstate Oil Compact Commission, you were appointed chairman of a national oil-policy committee. Did that committee submit a report?

Mr. THOMPSON. What date was it?

The CHAIRMAN. In April 1944, at the New Orleans meeting of the Interstate Oil Compact Commission, where you were appointed chairman of a national oil-policy committee. I am asking did the committee ever submit a report?

Mr. THOMPSON. Well, I am sure we did. I don't recall just this minute, but I never was appointed on a committee I didn't get something——

The CHAIRMAN. If there is such a report, would you obtain a copy for us and for the committee?

Mr. THOMPSON. Surely. The oil-policy committee?

The CHAIRMAN. Yes. April 1944, at the New Orleans meeting of the Interstate Oil Compact Commission, where you were appointed chairman of a national oil-policy committee.

Mr. THOMPSON. Yes, sir. I will give you a copy of it.

The CHAIRMAN. I want to get this answered definitely. I think you have previously answered it. I have had called to my attention the transcript of testimony before the Railroad Commission of Texas at its statewide hearing on February 18, 1953, wherein you are quoted as saying, "The Bureau of Mines forecast of market demand for Texas crude for each and every day of the month of March 1953 has been reported to us as being 2,960,000 barrels per day. This is 20,000 less than the Bureau of Mines' estimate of the requirement of Texas crude for the present month of February."

I want to ask this question: Is it the policy of the Texas Railroad Commission to follow the recommendations contained in the Bureau of Mines forecast of demand?

Mr. THOMPSON. We use them as an aid in our work, only as an aid. We do not take them as a directive to be followed as an order from the Federal Government.

The CHAIRMAN. Mr. Alfred G. White, of the Bureau of Mines, testified before Senator Wherry's Senate Small Business Committee on March 12, 1948, part 27, page 3139, that—

> The preparation and publication of monthly forecasts relating to the demand for motor fuel and domestic crude petroleum use was undertaken by the Petroleum Economics Division of the Bureau of Mines in July 1935, at the request of State conservation agencies and subsequently of the Interstate Oil Compact Commission.

I ask this question: Was the Texas Railroad Commission one of the commissions referred to as requesting the activity of the Bureau of Mines?

Mr. THOMPSON. We came before some committee asking that the appropriation be made to give us this aid in our work. And commended the Bureau of Mines for its work. As I remember, they had been making forecasts, but did not have the funds to continue. I came with—I forgot who else—and testified that it was good work and was helpful to us, yes, sir.

The CHAIRMAN. Well, I would think, then, that your answer is yes.

Mr. THOMPSON. I don't say we follow it. We ask that it be continued.

The CHAIRMAN. We have discarded that word "follow." We don't say that any more.

Mr. THOMPSON. We did ask for the money for the Bureau.

The CHAIRMAN. I substituted the word "used" instead of "follow," but I did not even use that this time. I just merely asked whether the Texas Railroad Commission was one of the commissions referred to as requesting the activity of the Bureau of Mines.

Mr. THOMPSON. Yes, sir; we did.

The CHAIRMAN. Now, Professor Eugene V. Rostov, of Yale University, in his book, A National Policy for the Oil Industry, in 1948, says at page 29:

> The Bureau of Mines estimates, the keystone of the entire plan, are without support in substantive legislation. No statute prescribes standards or policies for guiding the agency in its determinations of permissible supply.

Now I want to ask this question: Do you believe that the estimates of demand for petroleum prepared by the Bureau of Mines are the keystone of the entire plan of controlling oil production?

Mr. THOMPSON. No, sir. I don't believe anything in that book that Rostov wrote. It is a complete misconception of conservation, evidently written from a very biased standpoint or ill-informed, a book that needs to be answered very badly. It was written without evidence, study, or research.

Mr. HESELTON. Mr. Chairman, may I interrupt a second?

Because of the use of the word "bias" I am interested.

Surely it is not your theory, General, that anyone who questions or disagrees with any of the practices that prevail in the oil industry is biased, per se?

Mr. THOMPSON. No, lack of information is what I am talking about.

Mr. HESELTON. They are biased people?

Mr. THOMPSON. Well, uninformed, we will say.

The CHAIRMAN. You are very polite, that is characteristic of a Texan.

Now, do you believe that the Congress should set up proper safeguards and standards for the publication of these estimates if they are continued?

Mr. THOMPSON. It never occurred to me that they would go outside their limits, but I am always a strong believer in administrators having standards by which to guide them. Then they cannot go astray. I know I welcome standards in our work.

The CHAIRMAN. I can see that you do, by the reference that you make to the fact that you are endeavoring in Texas to follow the State statutes.

Mr. THOMPSON. To the letter.

The CHAIRMAN. You have emphasized that, and I can understand. I agree with you that it does seem to me that the administrator does have a right to have some standard or formula et——

Mr. THOMPSON. From the lawmaking body.

The CHAIRMAN. From the lawmaking body that would determine his course of action.

Mr. THOMPSON. We can do just exactly what the lawmakers want done in the manner in which they want it done.

The CHAIRMAN. I believe you testified before the Temporary National Economic Committee concerning the August 1939 complete shutdown of Texas wells because one of the major companies has posted a lower price. The chairman, Senator O'Mahoney, asked you, "Did you think that cut in price was an improper cut," to which you replied, "I have said that stocks were low and consumption was high, and if there was anything to the theory of balancing supply and demand when stocks are low and demand is high, you should not have declining values."

The question that I ask is this: Now when the situation is the reverse, at present, do you believe the raise in crude oil prices initiated by the Phillips people was justified?

Mr. THOMPSON. I do.

The CHAIRMAN. On what basis?

Mr. THOMPSON. Increased cost, and the price had been pegged since 1948 or 1947, and costs have increased immeasurably since then. I do not have the facts or the exact figures on what costs amounts are.

The CHAIRMAN. Do you have the figures on the increased earnings of those companies?

Mr. THOMPSON. No, sir; I do not.

The CHAIRMAN. Do you think that would be an element that should be considered?

Mr. THOMPSON. If you would consider the amount of the investment, yes, sir, along with the increased investment. Rate of return would be a good way to figure it, percentage of rate.

The CHAIRMAN. I do not remember Phillips' figures that were before us.

Mr. THOMPSON. I would say percentage of return would be a key, 5 percent or 6 percent.

The CHAIRMAN. Whatever way you take it, this committee has already inquired as to the earnings and as to the dividends and as to the assets, and present value, and all of that sort of thing, as it increased year by year. Notwithstanding the increased cost that you speak of, the fact remains that during these last 10 years, for which we asked the figures, there has been a tremendous increase in their earnings. One of those companies, if I remember correctly, and I will stand to be corrected, that we inquired into, a major company, I think its profits are something like something over 2,000 percent more than they were 10 years ago.

Mr. THOMPSON. What percent——

The CHAIRMAN. And most of them were 3, 4, 5, and 600 percent than they were 10 years ago.

Mr. THOMPSON. Do you mean more than 6 percent earnings?

The CHAIRMAN. I am telling you what the percent of increase was of earnings.

Mr. THOMPSON. I was inquiring about the percent on invested capital. I am sure they have all increased their investment tremendously.

Mr. YOUNGER. Would the gentleman yield for one question?

The CHAIRMAN. Yes.

Mr. YOUNGER. I would like to get into the record what in your opinion is a proper or reasonable net return for an oil company to make on its net assets?

Mr. THOMPSON. Of course, they have a very great risk element in drilling dry holes. We, in the gas utilities regulation, allow around 6 or 6½ percent in our State, on gas utilities. But oil production is not a public utility. I would say 6 percent would be a good earning, 6 or 6½.

Mr. YOUNGER. As I recall, the net earnings on the Phillips was somewhere around 12.

The CHAIRMAN. I do not remember.

Mr. YOUNGER. As I recall, it was something like that.

Do you remember, Mr. Thornberry?

Mr. THORNBERRY. It is all in the record. Just as the figure that the cost of oil increased almost a hundred percent. It is all in the record. We have it.

Mr. THOMPSON. We allow gas companies to earn 6 or 6½ percent. But the oil producing is a much more risky business than distributing gas. I mean exploration, leasing, drilling, and production of crude petroleum is more hazardous than distributing gas.

Mr. YOUNGER. But you would still say that 6 or 7 percent, around in there, would be a reasonable return after their depreciation and all?

Mr. THOMPSON. Yes. I don't own any interest in any of them, but I would say 8 percent would be a good earning, sir, 7 or 8, somewhere in that range on total investment.

Mr. YOUNGER. That is all, Mr. Chairman.

The CHAIRMAN. Now, I do not want to get into a discussion with you about the different factors that enter into a determination of whether the return is a good one or a poor one or what it is, but I was tempted to bring to your attention the facts that I did because of your insistence that the cost was justified in the Phillips company putting up the posted price of 25 cents a barrel.

Mr. THOMPSON. The particular company, I would not know. But generally I would know that costs have increased in drilling—increased tremendously.

The CHAIRMAN. We took all of them, and from some 10 of them, and we have reports from some 30 of them, we went into it pretty fully. I would think you would have to take into consideration more than the cost of operation.

Mr. THOMPSON. But I would not have any information at all on it, Mr. Chairman, except just general knowledge.

The CHAIRMAN. When the Connally Act was up for extension in 1939—and you can see the hearings in this committee on April 26, 27, 28 of that year—I stated at page 15:

> The question that has been in my mind at all times on this subject has been just how far it is proper to go in the passage of legislation of a restrictive character that does have a detrimental effect on the price structure with respect to the consumer. We may have differences of opinion as to what effect it has. The difficulty for me to decide is just how far we can go with regulation without unfairly affecting the consumers' interests.

That was spoken in connection with the continuation of the Connally "Hot Oil" Act. At page 19, in discussing that fact, that our reserves of oil were increasing, I stated:

> With the oil reserve increasing, there is less justification for production regulation that has a tendency to increase the price to the consuming public.

At the time I was speaking, the price of crude oil was a dollar a barrel. Today it is around almost the $3 per barrel level. The price has tripled.

My question to you is, Do you believe you have gone too far in restricting the production of crude oil to a point where we have tripled its cost?

Mr. THOMPSON. We have not gone too far in conservation at all, and we have not restricted production beyond waste prevention.

The CHAIRMAN. I am not speaking of conservation. That relates to bringing out the proper amount from the standpoint of getting the greatest possible amount of oil out of the ground.

Mr. THOMPSON. In the long run we will get much more oil under our good Texas conservation statute.

The CHAIRMAN. You in Texas, as you have already stated—and I think it is true of other States; I am not picking on Texas—you are the only witness before us at the moment, but I would do the same with Oklahoma or any other State——

Mr. THORNBERRY. Mr. Chairman, in referring to the questions you originally submitted, you referred only to the State of Texas. To keep the record clear, and in all due respect, let us keep it clear.

The CHAIRMAN. That is true. And if we can get a clear record, it probably will be very helpful.

Mr. THORNBERRY. It surely will, and I hope we can have one.

The CHAIRMAN. I asked you the question, Do you believe we have gone too far in restricting production of oil to a point where we have trebled its cost? and you said you do not think we have gone too far in conservation.

Mr. THOMPSON. For limiting production in the State of Texas. We have had nothing to do with this price matter.

The CHAIRMAN. Even though it is less than what would be allowable under the best practices of maximum efficient production?

Mr. THOMPSON. We have never made it one barrel less than would be proper under the State laws. That is the point I have been trying all day to get over.

The CHAIRMAN. The proper law you refer to is the Texas law.

Mr. THOMPSON. Yes, sir; and I think it is one of the best conservation laws in the Nation.

The CHAIRMAN. I am speaking of the thing from a purely engineering standpoint.

Mr. THOMPSON. It is purely engineering.

The CHAIRMAN. When you fix an allowable from a well as to what will be allowable, do you always permit it to draw that allowable?

Mr. THOMPSON. Do you mean the full amount it could produce?

The CHAIRMAN. Yes.

Mr. THOMPSON. No, sir.

The CHAIRMAN. That is what I am getting at.

Mr. THOMPSON. That is wide-open production.

The CHAIRMAN. What is the basis of your allowable?

Mr. THOMPSON. These first eight waste-prevention measures plus the limitation to prevent waste through overproduction which is forbidden by our law.

The CHAIRMAN. How do you determine a proper allowable for a well?

Mr. THOMPSON. We have hearings at which engineers——

The CHAIRMAN. No; I mean in the first instance. You told us when the well was brought in, that then you made a measurement.

Mr. THOMPSON. A test of it; yes, sir.

The CHAIRMAN. Well, a test. And you determined what that well could properly produce under the best of engineering skill and laws.

Mr. THOMPSON. Yes, sir.

The CHAIRMAN. Is that the amount that you allow when you issue an allowable?

Mr. THOMPSON. Never to exceed that.

The CHAIRMAN. Never to exceed it. But you put it underneath it; do you not?

Mr. THOMPSON. Sometimes, if that is greater than the market demand.

The CHAIRMAN. What I am getting at is that kind of practice, if it has the effect of increasing price to the consumer, is it right?

Mr. THOMPSON. Yes, sir; it is.

The CHAIRMAN. On what basis?

Mr. THOMPSON. Because you cannot ever build up a reserve supply for defense of this country unless you have some incentive to build up this reserve, and it must be carried in the price of the product. We need a million barrels reserve daily producing ability for military security, and we presently have only about 600,000.

The CHAIRMAN. Do you not think if that was necessary from a national-defense standpoint, it ought to be the subject matter of a statute by the Federal Congress, determining that policy?

Mr. THOMPSON. Do you mean have the Federal Congress buy that much oil and store it?

The CHAIRMAN. No; to have them fix the policy that you are now declaring.

Mr. THOMPSON. No; because that is a State matter. The oil belongs to the State, not the Federal Government.

The CHAIRMAN. Well, the question of national defense is Federal.

Mr. THOMPSON. Yes; I understand.

The CHAIRMAN. And you say it is justified in that there should be a recognition of necessity toward national defense; do you not?

Mr. THOMPSON. Yes, sir; that is right, and for an expanding economy, ever-expanding peacetime economy.

The CHAIRMAN. Who should fix the policy with reference to national defense, the States or Federal Government?

Mr. THOMPSON. The Federal Government should fight the wars.

The CHAIRMAN. That is the point I am making. I think so, too.

Mr. THOMPSON. But raising crops and producing natural resources and raising children is done by the States and not by the Federal Government. The things you fight a war with are materials and men, and that is a State matter, because that soil and what is underneath it belongs to the States and not to the Federal Government. The Federal Government calls upon the States for the men, the food, and fiber, and oil to fight with.

The CHAIRMAN. Those hearings to which I was referring, at those hearings I stated further:

> It seems to me that when you reduce or make scarce an article for which there is great demand, it will necessarily have tendency to increase the price of that article.

Do you agree with me?

Mr. THOMPSON. No, we have never made it scarce. If we did make it scarce, I would agree with you.

The CHAIRMAN. Please get away from the personal side.

Mr. THOMPSON. I don't like to be led into particularities through generalities.

The CHAIRMAN. I would like for you to answer it specifically, first.

Mr. THOMPSON. If you get so many generalities, you will have a "yes" to the specific.

The CHAIRMAN. I said, it seems to me when you reduce or make scarce an article for which there is great demand, it will necessarily have a tendency to increase the price of that article.

Is there any doubt about that?

Mr. THOMPSON. How scarce, Mr. Chairman? Scarce enough to make the price go up? I will say "Yes."

The CHAIRMAN. Well, you fix it whatever way you wish. I am asking you if that principle is correct.

Mr. THOMPSON. If you limit supply of articles below demand, you will tend to affect price; yes, sir.

The CHAIRMAN. Mr. Hale, I have other questions, but do you wish to ask any questions? I do not want to monopolize the whole time; or maybe Mr. Younger, or Mr. Thornberry, or maybe Mr. Heselton have questions.

Mr. YOUNGER. I have just one.

The CHAIRMAN. Mr. Younger.

Mr. YOUNGER. On the question of the production, if you have 600,000 barrels of capacity production which is now over and above the demand, then the allowables are fixed primarily on what the market will absorb?

Mr. THOMPSON. The top is fixed, but not primarily. Primarily it is to prevent waste. Those first things first.

Mr. YOUNGER. You said before that you could produce 600,000 barrels more——

Mr. THOMPSON. Texas has the ability with its wells.

Mr. YOUNGER. That is right. And they would fulfill all eight of the restrictions there so far as conservation is concerned.

Mr. THOMPSON. That is right.

Mr. YOUNGER. All right. So that when you go below that capacity of production, you take it and you reduce it on the basis of the restrictions.

Mr. THOMPSON. To market demand.

Mr. YOUNGER. So that when you fix allowables below the production maximum, it is on account of demand?

Mr. THOMPSON. Market demand, because we figure there is no use producing more than you can sell. Our Texas law says oil production in excess of market demand is waste and is forbidden.

Mr. YOUNGER. That is what I wanted to get into the record.

The CHAIRMAN. Mr. Hale.

Mr. HALE. General, if I correctly understood your testimony, your sole duty in your official capacity is to administer a law of the State of Texas; is that right?

Mr. THOMPSON. Yes, sir.

Mr. HALE. You wouldn't change that law if you could, and you could not if you would; is that correct?

Mr. THOMPSON. I advocated these statutes before the legislature, through the years, things that we needed, one by one, and I would not change them if I could. I think they are good statutes. If we could find improvements, I would recommend improvements.

Mr. HALE. As I understand it, the reason you think they are good statutes is because in the first place they encourage conservation; is that correct?

Mr. THOMPSON. Yes, sir.

Mr. HALE. And in the second place, they make for an orderly situation in the industry, preventing wasteful excesses of supply and so on?

Mr. THOMPSON. Yes, sir; that is right.

Mr. HALE. But it is true, if I understand your testimony at all, that in the oil industry supply is frankly and systematically regulated by demand.

Mr. THOMPSON. We limit production to market demand in our State; yes, sir. It is not more than that.

Mr. HALE. Of course, I suppose like any other body, you do make some mistakes in estimating supply and demand.

Mr. THOMPSON Yes, sir.

Mr. HALE. And you admit, of course, that when you do make a mistake of that kind, it may have an effect on price?

Mr. THOMPSON. Well, I don't know that we make errors that big or not. We correct them the next month. We only make orders for a month at a time. Stocks in storage go up and down and we can watch it pretty closely. I can remember of no error that resulted in that drastic action—of making a change in price by an error of ours.

Mr. HALE. You cannot point to any specific error of judgment and say that it caused a specific change of price; is that what you mean?

Mr. THOMPSON. Yes, sir; not knowingly or wittingly.

Mr. HALE. But you must admit, I think, that the errors of judgment may have caused price changes?

Mr. THOMPSON. Might have.

Mr. HALE. And whether you wished it or not?

Mr. THOMPSON. Yes, sir.

Mr. HALE. You are never consciously motivated or even subconsciously motivated by what you would like the price to be?

Mr. THOMPSON. No, sir; it is no concern of ours.

The CHAIRMAN. Not even as a candidate?

Mr. THOMPSON. No, sir. A cheap gasoline is a better program than high-price gasoline, and I believe there are more consumers than producers, and they also vote.

The CHAIRMAN. I thought that was what you had in mind.

Mr. THOMPSON. Yes, sir. Well, more than that, Mr. Chairman. I think it is right.

The CHAIRMAN. Well, that is better.

Mr. HALE. It is your honest opinion that, in the long run, the Texas statute keeps gasoline lower than any other kind of law?

Mr. THOMPSON. Well, it has furnished plenty of oil, and plenty of oil makes plenty of gasoline. The proof of the pudding is that gasoline is selling today hardly any higher than it was 20 years ago, less tax. It is a very cheap commodity.

Mr. HALE. I took it that your condemnation of Mr. Rostau's book is based on the fact that it is a highly theatrical work written by a man who does not have actual contact with the industry?

Mr. THOMPSON. Apparently he did not come down and investigate to see how it was done. I think he has misconception, or is misinformed, or lack of information on how we do it. We actually try to prevent physical waste and try to do nothing else but that. I may be overenthusiastic, because I have put 21 years at it. I know we are honestly trying to do a good job, and I know we are producing the oil. I know our wells are lasting longer, we are getting 3 or 4 times as many barrels out of a reservoir, and I think it is good, constructive conservation work. When somebody says we are in a conspiracy, a cartel, or it is a scheme that starts with the Bureau of Mines telling us what to do, then I say that man is suffering under an illusion.

Mr. HALE. Well, he probably wrote it in the library at Yale?

Mr. THOMPSON. Perhaps, yes, sir. It may be our fault for not having written some more, but every time I write something I have it read back to me and I have to explain it. I thought maybe a while ago I better stop writing or speaking and just sit at my desk and do my work.

The CHAIRMAN. Mr. Thornberry?

Mr. THORNBERRY. If I may, I have just a few questions.

General, reference has been made here several times to the Texas law passed by the legislature of our State upon a subject which we in Texas think as a sovereign State we had a right to pass. I was a little surprised this morning when it was indicated that the committee did not realize that market demand was a part of that law. Not only has that law been passed by the legislature, but it has been passed upon by the courts of the land, right up to the Supreme Court of the United States.

Mr. THOMPSON. Yes, sir. *Rowan & Nichols* v. *The Commission* is the case. Also see *Continental* v. *Tex. Commission* on this very point (157 SW. 2, 695).

DISCUSSION OF MARKET DEMAND STATUTE, STATE OF TEXAS [1]

Some people say that production in excess of reasonable market demand prevents economic waste only. They are mistaken. The need for preventing production in excess of the reasonable market demand to prevent physical waste and to protect correlative rights is now generally recognized by those who understand the facts. For many years the Railroad Commission of Texas has undertaken to prevent production in excess of the reasonable market demand as a part of the program to prevent physical waste and protect correlative rights, and the courts have upheld the orders on those grounds. The courts also held that the orders were not invalid as price-fixing devices, and that the effect upon prices, if any, was a mere incident to prevention of waste and protection of correlative rights.

The statutes which declare that production in excess of reasonable market demand is waste, and which authorize the administrative agency to restrict production to reasonable market demand, do not provide, as some seem to think, that in all events the administrative agency must permit production representing the reasonable market demand. Very frequently the production from a field is fixed at less than the market demand figure inasmuch as waste would take place, such as dissipation of reservoir energy, if the field should produce the amount representing the reasonable market demand applicable to that field. The statutes merely say that production in excess of the reasonable market demand is waste. It follows that production at even less than that amount may cause waste. If so, the production should be restricted to the lesser amount, ignoring market demand or rather the higher figure which would be applicable as the share for the field in the total demand.

Mr. THORNBERRY. In that case, did the Supreme Court hold that the element of the consideration of market demand to prevent waste was not——

Mr. THOMPSON. That the system of proration was not expressly market demand. In one case, in the court of appeals, the circuit court, Judge Hutchinson, writing a very distinguished opinion, said the action of the commission in limiting production to market demand might, as an incident, have effect on price. But if the commission went at it in a straightforward manner and applied the statute to prevent waste, it would not be contrary to the law.

Mr. THORNBERRY. And then it was upheld by the Supreme Court of the United States?

Mr. THOMPSON. That case was not appealed. But the Rowan Nichols case versus the Commission was in the United States Supreme Court, and that sustained the plan of proration.

Mr. THORNBERRY. General, I would like to ask you this: In your 21 years of experience in regulating the oil industry of Texas, and your observation of the Government programs and studies of the Federal Government which have had to do with the oil industry and the other industries, what would be your opinion of how the oil, the production of oil, can be best regulated from the standpoint of prevention of waste, by State or Federal law?

Mr. THOMPSON. By the State, because the oil comes from out of the sovereign soil of the State. The Federal Government can help by forbidding oil produced in excess of market demands crossing State lines, as it has done so well in the Connally law. That is a good statute. It deals with commerce across State lines.

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[1] Conservation of Oil and Gas, a Legal History, 1948. Edited by Blakely M. Murphy.

Mr. THORNBERRY. But in your opinion, since we have the indication or the attempts to indicate that we ought to have Federal control of the oil rather than State control of the production of oil, can waste be best prevented by the present law we have in the State of Texas?

Mr. THOMPSON. It should be done by each State itself. The Federal Government is too far removed from the site of the property. There are too many varied conditions in the various States. Each field is a separate study, each States has a separate problem. I would say unquestionably, as between State and Federal control of oil and gas production, State control would be far superior, and more effective, and certainly less expensive. We only have 214 employees in our whole commission that regulates the railroads, trucks and buses, gas utilities, and oil and gas conservation.

Mr. YOUNGER. Will the gentleman yield for one question there?

Mr. THORNBERRY. Yes.

Mr. YOUNGER. For the benefit of California, as you mentioned this morning, does California do a pretty good conservation, voluntarily?

Mr. THOMPSON. Yes, they do a good job. And they are the second biggest producer in the Nation.

Mr. THORNBERRY. I think you have emphasized, but I want to emphasize again, the State of Texas under its laws in regulating oil, was attempting to conserve our oil resources before the creation of the oil-compact commission.

Mr. THOMPSON. Yes, sir.

Mr. THORNBERRY. How many years before?

Mr. THOMPSON. The compact commission was created in 1935. We had had conservation in Texas since 1925, when the statute was passed, and real effort started in 1932, when east Texas came into heavy wasteful production. The efficacy or the efficiency of State conservation is best shown by the example in Texas: When World War II came on, Texas was able to supply a million barrels a day for the war effort. There was the security of our very freedom. So if a system that is time-tested and true, and delivers the required oil in time of war, I do not know what more you could ask, without any subsidy or any bounty from the Federal Government.

Mr. THORNBERRY. From my knowledge of what the Railroad Commission does, and in your testimony, you have said that you have nothing to do with price, but you indicated that you thought that the price of oil, besides being affected by supply and demand, will be also affected by the element of cost.

Mr. THOMPSON. Yes, the increased cost of drilling, and the cost of dry holes.

Mr. THORNBERRY. That is the point I want to make. This committee has evidence before it, which I don't think has been controverted by anybody, that the cost of drilling has increased anywhere from—I recall 1 figure of 93 percent, and most of the figures have been in that area. Would you not say that whatever commodity, oil or anything else, that increase in 5 years might affect the cost of the commodity?

Mr. THOMPSON. Why certainly. If you don't, you run out of oil directly, and will be short, and come a war and you won't have any, either for the peacetime economy or defense.

Mr. THORNBERRY. General, there has been some reference, now, to the earnings of certain companies. Of course, I am not in the business of running down any company that makes money, because I think the success of our country is due to free enterprise based on the profit motive, particularly when those companies are in the competitive system. From your knowledge of the oil industry, would you say there is a whole lot more to the production of oil, the successful production of oil, than the big companies, without criticizing their contribution—is it not a fact that the production of oil is dependent upon a greater number of wildcatters and people who go out and use their ingenuity and who are dependent upon the adequate price they receive?

Mr. THOMPSON. About 75 percent of the oil discovered is discovered by the little fellows. The big companies buy his oil after he discovers it. To show how the little fellow has progressed under proration and conservation, in 1932 there were 4,000 independent producers in the country and 21 majors. Today there are 13,000 independent operators and still just 21 majors. So conservation allows the smallest fellow to operate right beside the biggest one, on the same fair legal rules, so they cannot line drill him and run him out. It has helped the little man, and I think it is good when you can have the little man grow up in the industry. They take terrific losses, sometimes. I know one man who drilled 92 dry holes before he ever got oil. But he finally hit a small field. He drilled them by spelling off acreage, checker-boarding acreage, and getting bottom-hole money as an encouragement and dry-hole money, and drilled 92 dry holes before he ever hit a well that was a producer. It was in Louisiana. His name was Evans, Mr. Jim Evans.

Mr. THORNBERRY. General, in that connection I want to ask you, under the conservation program, as it works in Texas or some States—and you have indicated there are other States that have proration laws besides Texas——

Mr. THOMPSON. Some of them have laws better than ours.

Mr. THORNBERRY. I did not intend to bring out that some States have better laws than the State of Texas. You are much more honest than some of us from Texas. But anyhow, with relation to a State conservation law where there is the effort to see to it that oil is conserved and there is not an overproduction of oil so that waste would be created, is there greater opportunity or lesser opportunity for the small man to have his oil taken?

Mr. THOMPSON. Under conservation?

Mr. THORNBERRY. Yes.

Mr. THOMPSON. Immeasurably greater under the program of conservation, because the small operator gets an even break with the big ones. They cannot crowd him out. They used to line drill him. He would make a discovery and they would come next to him and line drill him and break him. Now we have spacing rules which makes each well take its place in an acreage pattern. If you would rub it out, the big ones would have the business gobbled up, again, and you would have periods of shortage and famine, and overproduction and higher prices for oil in the long run.

Mr. THORNBERRY. I believe that is all, Mr. Chairman.

The CHAIRMAN. Mr. Bush, do you have any questions?

Mr. BUSH. I have no questions.

The CHAIRMAN. Mr. Heselton?

Mr. HESELTON. General, there have been some questions asked, and particularly by the chairman, and I realize you may not care to comment at all because there is another side to the picture which has been clearly brought out by the testimony before this committee. More specifically, I think in terms of the general agreement that this recent price increase will result in an increase to the ultimate consumers in the neighborhood of a half million dollars a year.

I want to read briefly from a letter I received, and you may comment or not.

> We read a news item recently in which your name was mentioned as committee member attempting to put some sense into the heads of big business.
>
> We agree with you wholeheartedly in this matter. We are a small company who buys solvents derived from oil. We also purchase paraffin and other petroleum products.
>
> Every one of them have gone up in price in the last month. These are not the first raises. There seems to be no attempt on the part of big business to help stabilize the price situation long enough so that other factors that go to make up costs will fall in line. In businesses, such as ours, and others that are competitive, there is an opportunity for a purchaser to go out and buy at a lower price or to purchase a different item. The strict control by all of the oil companies and the prices which go into effect on the same day by all of them is the surest indication that there is no longer any law in the land that believes in free private enterprise. Every step of the way is toward monopoly on the one hand or full State control on the other.
>
> I am writing this letter as an individual, as well as an owner of a small business, to let you know there are people who are interested in having you continue to fight this obvious pattern of price control on an upward spiral basis.

So you see, General, there are even men who have small businesses, who see something in this that is very unfortunate.

I think they maye be motivated somewhat by their real hope that is in their hearts because this administration has taken some definite steps toward trying to stop this ever-decreasing loss in purchasing power of the dollar, to cut out this deficit stuff and balance the budget, and perhaps out of which may come a little tax relief.

Mr. THOMPSON. I hope we do.

Mr. HESELTON. I do think, and I am sure you all agree with me, that some of those who are responsible for the price increases should have taken it into consideration before they jumped them, irrespective of all the very logical arguments about increases in cost and all of that sort of thing, which they have, incidentally, as the chairman indicated, been very able to successfully absorb over the last 5 years and still increase in large measure their profit.

The second thing is this: You mentioned the fact, or Mr. Thornberry brought up the question of the various States having several control agencies. Do you know Mr. Pound of Oklahoma City?

Mr. THOMPSON. Yes, I know him.

Mr. HESELTON. He is conservation director of the Oklahoma agency.

Mr. THOMPSON. Yes, sir.

Mr. HESELTON. Was your attention called recently to his charge that west Texas was trying to chisel in on the oil market which traditionally belonged to Oklahoma and several other States? I believe he called it the Great Lakes market.

Mr. THOMPSON. I read in the Fort Star Telegram where he made a statement in which he said he was not reflecting on the Texas Railroad Commission.

Mr. HESELTON. He was what?

Mr. THOMPSON. He was not reflecting on the Texas Railroad Commission. He was taking exception to a speech that Mr. Windfohr had made.

Mr. HESELTON. On the other hand, he complained rather bitterly. "Nor has any credit been given us for our attempt to cooperate in reducing national crude-oil stocks. On the contrary, we have. But cutting allowables, particularly in southern Oklahoma, merely made room for a less desirable type of sour crude"——

Mr. THOMPSON. Further on, he said he was not reflecting on the railroad commission, but rather taking exception to a speech made by Bob Windfohr.

Mr. HESELTON. I am simply trying to find out whether there is any possibility that the several State agencies under this compact commission are in fact engaging in a coopertive, shall I say——

Mr. THOMPSON. Never even considered such a thing.

Mr. HESELTON. Let me finish. Let's say cooperative, which is a perfectly good word.

Mr. THOMPSON. We don't even cooperate in limiting production.

Mr. HESELTON. Well, I will take the adjective out. Are engaged in any effort to reduce the national stocks of crude oil.

Mr. THOMPSON. We never have even considered such a thing. The compact commission discusses techniques in production, cases at law. I am chairman of the legal committee and we discuss the latest cases. It is just a fact forum where people get together and talk. It has no authority to do anything and doesn't attempt to do anything. The fact is——

Mr. HESELTON. Why is it——

Mr. THOMPSON. May I finish, sir. For years we were criticized because the compact did not do anything. We were asked time and time again to "Bring us some specific thing the compact has done." We were trying to keep it from doing anything except to educate the people. It has no power and no force, except the force and power of enlightened public opinion on conservation.

Mr. HESELTON. Why do you suppose Mr. Pound chose to select these words: "Nor has any credit been given to us for our attempt to cooperate"?

Mr. THOMPSON. You will have to ask Mr. Pound. I have no idea. I had no agreement with him about anything, ever, and I feel sure no one else did on allowables.

Mr. HESELTON. No, I want to know why he used those words, "to cooperate in reducing"——

Mr. THOMPSON. You will have to get him up here and ask him. I have cooperated with him in trying to get better laws in the States and better administration, but never at reducing allowables, as you are saying there. Mr. Pound would be the best man for that.

Mr. HESELTON. All right, sir. In 1948, during the course of hearings before this committee, and in the body of the hearings, I inserted a letter I received from a person in Texas which read as follows:

If you really want more oil, you can get it overnight by getting proration doubled.

That makes sense to me.

An oil well recently came in on my property which flowed at the rate of 350 gallons per hour, and the allowable for this well, costing over $200,000 to drill,

will be 210 barrels a day for not over 6 months and then probably half that. Does that make sense?

That is his question in the letter.

Mr. THOMPSON. Where is his well located?

Mr. HESELTON. I don't know, in Texas somewhere.

Mr. THOMPSON. I am sure he got a fair allowable, Mr. Congressman.

Mr. HESELTON. He apparently did not think so.

Mr. THOMPSON. Will you give me his name, and I will look it up for you.

Mr. HESELTON. I did not insert the name. If I can find the letter, I will give it to you.

Mr. THOMPSON. Thank you. I would like to help him get straightened out. If we are in error, we would like to correct it. It sounds like a good allowable though.

Mr. HESELTON. Have you recently seen a statement from an article written by Mr. Samuel Nakasian, in which he says:

Today by their exclusive long-term concessions, seven corporate systems own practically all production rights outside of North America, the most profitable oil-bearing formations of the free world. Through a process of rational development, each of the seven corporate systems by virtual integration has brought under central management and order all petroleum operation, crude production, refining, transportations, and marketing. Therefore one should reasonably expect to find a related policy with respect to crude oil production and refining * * * for each of the producing companies.

Mr. THOMPSON. No; I have not read the article.

Mr. HESELTON. Of course, I realize it is outside, perhaps, your immediate concern, but does that give you any cause——

Mr. THOMPSON. You are talking about Dutch, did you say?

Mr. HESELTON. No; this is the Standard Oil Co. of New Jersey, I suppose. Socony-Vacuum, Gulf, Standard of Texas, Royal Dutch, and Anglo-Iranian.

Mr. THOMPSON. Abroad?

Mr. HESELTON. Outside of North America.

Mr. THOMPSON. No; I wouldn't know.

Mr. HESELTON. Finally, the chairman was inquiring this morning about the price increases granted in 1946 and 1947. Apparently there was furnished to the committee at the request of the chairman the date and amount of increase and who initiated it. I call your particular attention to the dates and to the person or company initiating. April 1, 1946, 10 cents by the Office of Price Administration; July 26, 1946, 25 cents by Humble Oil & Refining Co.; November 11, 1946, 10 cents by Sun Oil Co.; March 10, 1947, 25 cents by Standard Oil Co. of Indiana; October 15, 1947, 20 cents by Southern Minerals Corp.; November 28, 1947, 50 cents by Sun Oil Co.

Having in mind that those price increases were initiated by the Office of Price Administration first, and then by five different companies, is it a fair conclusion that a pattern had grown up by that time, by which, without any agreements, consultations, or anything that would remotely approach a violation of the existing antitrust laws, that someone could announce an increase, and everyone else followed through?

Then the next increase was by another one, and the third by another, and so on, so that what I suggested this morning was a very effective pattern which can be used to bring about what the chairman said and

what I said might well be considered the effects which the antitrust laws were enacted to avoid, without any open violation?

Mr. THOMPSON. Well, you are not asking a question.

Mr. HESELTON. Yes. I asked you if that did not lead to a fair inference that that was the result of it, and the pattern that appears in these price increases.

Mr. THOMPSON. I wouldn't know, because it is beyond my scope of work.

Mr. HESELTON. What effect would it have then on the work of the Texas Railroad Commission if Congress was to repeal the Connally Hot Oil Act?

Mr. THOMPSON. Well, you could allow oil produced contrary to State law to move across State lines. It would take away that additional police power that is being used now to keep hot oil out of interstate commerce. We watch it as closely as we can. It is quite an aid to have one more check there.

Mr. HESELTON. I have not been able to find a decision, but I had it suggested to me sometime, that when the Supreme Court or whatever court it was, passed upon the constitutionality of the Connally Hot Oil Act it said in effect under existing circumstances, because of prevailing conditions, we are led to approve the constitutionality of the law, but did not pass flatfootedly on the constitutionality and reserve to the future the question of further determination under the different conditions. Do you know of any decision to that effect?

Mr. THOMPSON. No; I don't.

Mr. HESELTON. Was the Connally Act litigated?

Mr. THOMPSON. I don't recall that it was. We had one case under the NRA that was—the Panama Refining Co. case.

Mr. HESELTON. Did that involve the Connally Act?

Mr. THOMPSON. Well, it involved illegal oil, under the code. But they found the penal section had been omitted from the Executive order. Therefore, after trying the man all the way up, they found nothing to it.

Mr. HESELTON. Does the Texas Commission have and understanding with the authorities in Venezuela concerning concurrent production or any increase in the amount of production allowed? What I mean is when Texas cuts allowables, does Venezuela do so also, and conversely when it increases does Venezuela do so also?

Mr. THOMPSON. We have no such understanding. The Venezuelan people, when we had to reduce our production on account of excessive stocks, sent a telegram to our commission saying they were glad to tell us they were reducing their production as in line with the Texas reduction. But it was no agreement, it was just a message from the Bureau of Mines and fomento. We have no agreements with them whatever.

Mr. HESELTON. Do they have a monthly allowable?

Mr. THOMPSON. No; I don't think they do. I don't know just how they do arrange theirs, but they sent us a telegram and we wrote them a letter of thanks.

Mr. HESELTON. They do regulate the production of crude oil there?

Mr. THOMPSON. I am not sure just how they do it. They are starting to institute studies on reservoir control. They sent some of their engineers in to our fields, and then in turn they asked us for the loan of one of our engineers. He is presently down there with

them studying some water-injection and gas-injection problems. His name is Jack Baumel.

Mr. HESELTON. I am not sure you should be asked the question, but does the amount of Venezuela production vary in the same ratio that the amount in Texas varies, from month to month?

Mr. THOMPSON. No; I think not.

Mr. HESELTON. You think not?

Mr. THOMPSON. They produce about 1,800,000 barrels a day, I believe, at the moment. Their oil does not conflict with ours. It is low gravity and does not meet our head-on competition.

Mr. HESELTON. Last week Mr. Russell Brown was before the committee, and he stated these seven oil companies that I have referred to, which have large interests abroad, primarily in the Middle East, "determine the price of every barrel of oil produced in the United States."

Do you agree with Mr. Brown's statement?

Mr. THOMPSON. Well, I do not know who determines the price. I really do not know. I don't disagree or agree with him. I just don't know anything about who fixes the price of oil.

Mr. HESELTON. If this determination of price is controllable——

Mr. THOMPSON. I suppose that is an opinion he is giving.

Mr. HESELTON. Yes; no doubt. If this determination of price is controlled by these companies operating abroad through their control of imports, what would be the situation if the amount of imports was a known fact? Would these same companies, or these and some of these together with other companies possess such a dominant role in making nominations to your commission or in indicating their refinery purchases to the Bureau of Mines, that they would exercise the same pressure in determination of price of every barrel produced in this country?

Mr. THOMPSON. I don't know.

Mr. HESELTON. Can you give us now, or supply for the record, the allowables set for the commission, compared to what the total production would have been if it had been at maximum efficiency rate of production since the commission first administered the statute?

Mr. THOMPSON. Since what?

Mr. HESELTON. Since the commission first administered the statute.

Mr. THOMPSON. No.

Mr. HESELTON. You can't give me that?

Mr. THOMPSON. I don't have any such figures.

Mr. HESELTON. Could you supply it for the record?

Mr. THOMPSON. It would take a great deal of work.

Mr. HESELTON. Would it?

Mr. THOMPSON. How important is it to you? We have a small force, and that would take a month to go through, since 1932, and check every month. It would take a month's time. Unless you really want it for some very important reason, I see no reason why I should put somebody collecting stuff for a month.

Mr. HESELTON. You do keep a permanent record, undoubtedly, of the allowables set month by month?

Mr. THOMPSON. Yes.

Mr. HESELTON. That would not be too much difficulty?

Mr. THOMPSON. No, I could get you that.

Mr. HESELTON. Now, the question is, you do not keep a record of what you determine to the amount that would have been produced if you had relied on the maximum efficient rate?

Mr. THOMPSON. We don't approach it that way at all. Each field has its maximum efficient rate, and we have all of those records in transcripts of hearings on those particular fields. There are 1,600 of them.

Mr. HESELTON. Well, can I then try to get it this way: Perhaps you can express an opinion on it. Presumably the allowables were much below the maximum efficient rate from the depression years until the war, is that true?

Mr. THOMPSON. I did not quite hear it.

Mr. HESELTON. I said presumably the allowables were much below the maximum efficient rate from the depression years until the war.

Mr. THOMPSON. Well, we accumulated around a million barrels reserve before World War II came, and then we consumed all of that. At the end of the war——

Mr. HESELTON. I was coming to that, General.

Mr. THOMPSON. Well, I am trying to tell you how we did it. If we had not built up some reserve, we wouldn't have had any oil for the war.

Mr. HESELTON. Well, have the allowables been set at the maximum efficient rate? Were they set at or beyond the maximum efficient rate figure during the war?

Mr. THOMPSON. As I recall, we produced every barrel that we could produce at the most efficient rate and even more. We even harmed some of our fields, which is regrettable, but the demand was eminent, we had to furnish it. It was an emergency.

Mr. HESELTON. Subsequent to the war, did you actually reduce the amount of the allowables?

Mr. THOMPSON. When V–J Day came, we cut 600,000 barrels, because that was the military load. This was done so as not to accumulate needless wasteful stocks in storage above ground.

Mr. HESELTON. What is the situation as of this date with reference to V–J Day?

Mr. THOMPSON. If we took the MER of every field in the State and produced 31 days in July instead of 21, as we are, we could produce 1,100,000 barrels more per day if the pressure would stay. But I fear the pressure would drop off very drastically in a couple of months. That is the reason I say we have, perhaps, a dependable 600,000-barrels-a-day reserve. The Secretary of the Navy, if you will recall, put it at 1,100,000 barrels. Those figures are a little more than 1,100,000. They are about 1,180,000. You could subtract one figure from the other there, in the letter from Secretary Anderson. I figured sustained production say for a war, would be only about half that or even less as the war lengthened.

Mr. HESELTON. Did you within the last few days set your allowables for August?

Mr. THOMPSON. Yes, sir; we did.

Mr. HESELTON. What was the overall?

Mr. THOMPSON. I gave that figure this morning. We set it above the Bureau of Mines, 430,000 barrels, above the Bureau of Mines. Texas allowable above the Bureau 346,920 barrels for crude oil and,

if you include natural distillates and condensates, it is 414,570 barrels above the Bureau of Mines.

Mr. HESELTON. What is that with reference to this month's allowables?

Mr. THOMPSON. It is 10,900 barrels additional.

Mr. HESELTON. That is all, Mr. Chairman.

Mr. HINSHAW (presiding). Are there any other questions?

If not, thank you very much.

Mr. THOMPSON. Thank you very much, Mr. Chairman. I have enjoyed being here very much.

(The following material was submitted for the record by Mr. Thompson:)

EXHIBIT FOR TESTIMONY OF ERNEST O. THOMPSON

ACTS, 1934, 44TH LEGISLATURE, LAWS OF TEXAS, CHAPTER 76, PROVIDING FOR CONSERVATION OF OIL AND GAS RESOURCES, PREVENTION OF WASTE, AND ENFORCEMENT OF CONSERVATION LAWS

Be it enacted by the Legislature of the State of Texas:

SECTION 1. Unless the context otherwise requires, the words defined in this Section shall have the following meaning when used in this Act, to wit: "Commission" means the Railroad Commission of Texas. "Person" means any natural person, corporation, association, partnership, receiver, trustee, guardian, executor, administrator and a fiduciary or representative of any kind. The word "pool" means an underground reservoir containing a connected accumulation of crude petroleum oil, nor natural gas, or both. The words "crude petroleum oil," "crude petroleum," "crude oil," and "oil" mean the same thing whether used in this Act or elsewhere in the conservation Statutes of this State relating to oil and gas. The words "natural gas" and "gas" mean the same thing whether used in this Act or elsewhere in the conservation Statutes of this State relating to oil and gas. The words "product" or "product of crude petroleum oil or natural gas" mean any commodity or thing made or manufactured from crude petroleum oil or natural gas, and all derivatives or byproducts of crude petroleum oil or natural gas, including refined crude oil, crude tops, topped crude, processed crude petroleum, residue from crude petroleum, cracking stock, uncracked fuel oil, treated crude oil, fuel oil, residuum, gas oil, naphtha, distillate, gasoline, kerosene, benzine, wash oil, waste oil, lubricating oil, casinghead gas, casinghead gasoline, blended gasoline, and blends or mixtures of crude petroleum oil, or natural gas, or any derivatives or byproducts thereof.

SEC. 2. Article 6014 of the Revised Civil Statutes of Texas 1925, as amended by Section 1, Chapter 26, Acts of the Forty-second Legislature, First Called Session, as further amended by Section 1, Chapter 2, Acts of the Forty-Second Legislature, Fourth Called Session, is hereby amended so that the same shall hereafter read as follows:

"ARTICLE 6014. The production, storage or transportation of crude petroleum oil or of natural gas in such manner, in such amount, or under such conditions as to constitute waste is hereby declared to be unlawful and is prohibited. The term 'waste' among other things shall specifically include—

"(a) The operation of any oil well or wells with an inefficient gas-oil ratio, and the Commission is hereby given authority to fix and determine by order such ratio; provided that the utilization for manufacture of natural gasoline or gas produced from an oil well within the permitted gas-oil ratio shall not be included within the definition of waste.

"(b) The drowning with water of any stratum or part thereof capable of producing oil or gas, or both oil and gas, in paying quantities.

"(c) Underground waste or loss however caused and whether or not defined in other subdivisions hereof.

"(d) Permitting any natural gas well to burn wastefully.

"(e) The creation of unnecessary fire hazards.

"(f) Physical waste or loss incident to, or resulting from, so drilling, equipping, locating, spacing or operating well or wells as to reduce or tend to reduce the total ultimate recovery of crude petroleum oil or natural gas from any pool.

"(g) Waste or loss incident to, or resulting from, the unnecessary, inefficient, excessive, or improper use of the reservoir energy, including the gas energy or water drive, in any well or pool: however, it is not the intent of this Act to require repressuring of an oil pool or that the separately owned properties in any pool be unitized under one management, control, or ownership.

"(h) Surface waste or surface loss, including the storage either permanent or temporary of crude petroleum oil, or the placing any product thereof, in open pits or earthen storage, and all other forms of surface waste or surface loss, including unnecessary or excessive surface losses, or destruction without beneficial use, either of crude petroleum oil or of natural gas.

"(i) The production of crude petroleum oil in excess of transportation or market facilities or reasonable market demand. The Commission may determine when such excess of production exists or is imminent and ascertain the reasonable market demand.

"The Commission may consider any or all of the above definitions, whenever the facts, circumstances, or conditions make them applicable, in making rules, regulations, or orders to prevent waste of oil or gas.

"Nothing in this Section shall be construed to authorize limitation of production of marginal wells, as such marginal wells are defined by Statute, below the amount fixed by Statute for such wells."

SEC. 3. Section 2, Chapter 2, Acts of the Forty-second Legislature, Fourth Called Session, is hereby amended so that the same shall hereafter read as follows:

"SECTION 2. The Commission shall have no authority to make any rule, regulation, or order, or in any wise determine or hold that any mode, manner, or process of refining crude petroleum oil constitutes waste.

"Nothing in this Act shall be construed as granting to the Commission any power or authority to restrict, or in any manner limit the drilling of wells for the purpose of exploring for crude petroleum oil or natural gas or both in territory not known to produce either such oil or gas.

"The Commission shall not, under the terms of Subdivision (j) of Section 2 hereof, restrict the production of crude petroleum oil from any new field brought into production by such exploration until the total production therefrom aggregates ten thousand (10,000) barrels of crude petroleum oil per day, provided, however, the Commission's power to restrict the production from such new field under the remaining subdivisions of said Section 2 shall not be affected or limited by this paragraph."

SEC. 4. Article 6029 of the Revised Civil Statutes of Texas, 1925, as amended by Section 15, Chapter 26, Acts of the Forty-second Legislature, First Called Session, as further amended by Section 7, Chapter 2, Acts of the Forty-second Legislature, Fourth Called Session, is hereby amended so that the same shall hereafter read as follows:

"ARTICLE 6029. The Commission shall make and enforce rules, regulations, or orders for the conservation of crude petroleum oil and natural gas and to prevent the waste thereof, including rules, regulations, or orders for the following purposes:

"(1) To prevent the waste, as hereinbefore defined, of crude petroleum, oil, and natural gas in drilling and producing operations and in the storage, piping, and distribution thereof.

"(2) To require dry or abandoned wells to be plugged in such way as to confine crude petroleum oil, natural gas, and water in the strata in which they are found and to prevent them from escaping into other strata.

"(3) For the drilling of wells and preserving a record thereof.

"(4) To require wells to be drilled and operated in such manner as to prevent injury to adjoining property.

"(5) To prevent crude petroleum oil and natural gas and water from escaping from the strata in which they are found into other strata.

"(6) To establish rules and regulations for shooting wells and for separating crude petroleum oil from natural gas.

"(7) To require records to be kept and reports made.

"(8) It shall do all things necessary for the conservation of crude petroleum oil and natural gas and to prevent the waste thereof, and shall make and enforce such rules, regulations, or orders as may be necessary to that end.

"(9) To provide for the issuance of permits, tenders, and other evidences of permission when the issuance of such permits, tenders, or permission is necessary or incident to the enforcement of its rules, regulations, or orders for the prevention of waste."

SEC. 5. Section 3, Chapter 2, Acts of the Forty-second Legislature, Fourth Called Session, as amended by Section 1, Chapter 45, Acts of the Forty-third Legislature, Second Called Session, is hereby amended so that same shall hereafter read as follows:

"SEC. 3. The Commission shall have the power, and it shall be its duty, from time to time to inquire into the production, storage, transportation, refining, reclaiming, treating, marketing, or processing of crude petroleum oil and natural gas, and the reasonable market demand therefor, in order to determine whether or not waste exists or is imminent, or whether the oil and gas conservation laws of Texas or the rules, regulations, or orders of the Commission promulgated thereunder are being violated. It shall be the duty of all persons producing, storing, transporting, refining, reclaiming, treating, marketing, or processing crude petroleum oil or natural gas or the products of either to keep in this State accurate records as to the amount produced, stored, transported, refined, reclaimed, treated, marketed, or processed by such person; and as to the source from which such person has produced, obtained, or received crude petroleum oil, natural gas, or the products of either, and the disposition made of same. The Commission shall have the power to require all such persons to make and file with the Commission sworn statements or reports as to facts within their knowledge or possession pertaining to the reasonable market demand for crude petroleum oil and to the production, storage, transportation, refining, reclaiming, treating, marketing, or processing of crude petroleum oil or natural gas and products of either, including those facts enumerated herein; and to require any well, lease, refinery, plant, tank or storage, or pipe line, or gathering line, belonging to or under the control of any such person to be inspected or gauged by the agents of the Commission whenever and as often and for such periods as the Commission may deem necessary; and the Commission and its agents and the Attorney General and his assistants and representatives may likewise examine the books and records of any such person as often as deemed necessary for the purpose of ascertaining the facts concerning the matters and things hereinabove set forth. The failure of any corporation chartered under the laws of this State to comply with the provisions of this Section and to keep such records in this State, or the refusal to permit the officers herein mentioned to inspect and examine the records herein required, shall constitute grounds for a forfeiture of its charter rights and privileges and the dissolution of its corporate existence. Any such violation by a foreign corporation shall be ground for enjoining and forever prohibiting such corporation from doing business in this State. It shall be the duty of The Attorney General when in his judgment the public interest requires it, upon his motion, and without leave or order of any judge or Court, to institute suit or other appropriate action in Travis County for forfeiture of charter rights of any domestic corporation and enjoining any foreign corporation from doing business in this State, when any such corporation is deemed guilty of violating the provisions of this Section; and, upon judgment against such defendant for violation of the provisions of this Section, the Court may if in its judgment the public interest requires it, forfeit the charter rights of a defendant domestic corporation and enjoin a defendant foreign corporation from doing business in this State thereafter."

SEC. 6. Section 7, Chapter 26, Acts of the Forty-second Legislature, First Called Session, as amended by Section 5, Chapter 2, Acts of the Forty-second Legislature, Fourth Called Session is hereby amended so that the same shall hereafter read as follows:

"SEC. 7. Upon the initiative of the Commission, or upon the verified complaint of any person interested in the subject matter, that waste of crude petroleum oil or natural gas is taking place in this State, or is reasonably imminent, the Commission may hold a hearing, at such time and place as it may fix, to determine whether or not waste is taking place, or is reasonably imminent and what, if any, rule, regulation, or order should be made or what, if any, other action should be taken to correct, prevent or lessen such waste. At said hearing all parties interested shall be entitled to be heard and introduce evidence and to require the attendance of witnesses and the production of evidence may be required as provided by law. If upon the hearing the Commission shall find that waste is taking place, or is reasonably imminent, the Commission shall make such rules, regulations or orders as in its judgment is reasonably required to correct, prevent or lessen such waste.

"In the event any such rule, regulation or order which the Commission may adopt provides for the limitation or fixing of the production of crude petroleum oil, or of natural gas from wells producing gas only, in any pool or portion there-

of, the Commission shall distribute, prorate, or otherwise apportion or allocate, the allowable production among the various producers on a reasonable basis.

"From and after the promulgation of any rule, regulation or order of the Commission it shall be the duty of each person affected thereby to comply with the same."

SEC. 7. Section 5, Chapter 313, Acts of the Forty-first Legislature, Regular Session, is hereby amended so that the same shall hereafter read as follows:

"SEC. 5. No rule, regulation or order shall be adopted by the Commission under the provisions of this Act or of Title 102 of the Revised Civil Statutes of Texas, 1925, as amended dealing with the conservation of oil and gas and the prevention of the waste thereof, except after hearing upon at least ten (10) days notice given in the manner and form prescribed by the Commission; provided that in case an emergency is found by the Commission to exist, which, in its judgment requires the making of a rule, regulation or order without notice and hearing, such emergency rule, regulation or order may be promulgated and shall have the same validity as if a hearing with respect to the same had been held after due notice. The emergency rule, regulation or order authorized herein shall remain in force no longer than fifteen (15) days from its effective date, and, in any event, it shall expire when the rule, regulation or order made after due notice and hearing with respect to the subject matter of such emergency rule, regulation or order becomes effective.

"The Commission may, without prior notice, revoke any rule, regulation or order promulgated by it; and it may, without prior notice, amend the same, provided the subject matter of the amendment was considered at the hearing made the basis for such rule, regulation or order. The renewal or extension of any rule, regulation or order shall be based upon a hearing after proper notice, subject to the provisions of this Section with reference to emergency rules, regulations and orders.

SEC. 8. The publication in any newspaper of any rule, regulation, or order of the Commission shall not be required before such rule, regulation, or order shall become effective for any purpose except as may be required for the enforcement of the criminal provisions of Chapter 165, Acts of the Forty-third Legislature, Regular Session, or any amendment thereof.

SEC. 9. Section 6, Chapter 2, Acts of the Forty-second Legislature, Fourth Called Session, is hereby amended so that same shall hereafter read as follows:

"SEC. 6. In order to prevent unreasonable discrimination in favor of one pool as against another, and upon written complaint and proof of such discrimination, the Commission is authorized to allocate or apportion the allowable production of crude petroleum oil upon a fair and reasonable basis among the various pools in the State; provided, however, that in allocating or ascertaining the reasonable market demand for the whole State the reasonable market demand of one pool shall not be discriminated against in favor of any other pool; and provided further, that the Commission shall ascertain the reasonable market demand of each such respective pool as the basis for determining the allotments to be assigned each such respective pool, to the end that such discrimination may be prevented."

SEC. 10. The purchase, acquisition, or sale, or the transportation, refining, processing, or handling in any other way, of crude petroleum oil or natural gas, produced in whole or in part in violation of any oil or gas conservation Statute of this State or of any rule, regulation, or order of the Commission thereunder, is hereby prohibited.

The purchase, acquisition, or sale, or the transportation, refining, processing, or handling in any other way, of any product of crude petroleum oil or natural gas which product is derived in whole or in part from any crude petroleum oil or natural gas or any product of either, which crude petroleum oil or natural gas or product was in whole or in part produced, purchased, acquired, sold, transported, refined, processed, or handled in any other way in violation of any oil or gas conservation Statute of the State, or of any rule, regulation, or order of the Commission thereunder, is hereby prohibited.

The Commission shall have the power to promulgate and enforce such rules, regulations, and orders as may be necessary to carry the provisions of this Section into effect and to prevent a violation thereof; provided that whenever the Commission requires a showing that refined products were manufactured from oil legally produced, such requirement shall be of uniform application throughout the State; and provided that whenever such rule, regulation, or order is promulgated for the purpose of controlling any condition in any local area or to prevent a violation in any local area, then upon the complaint of any person

that the same or similar conditions exist in some other local area and the promulgation and enforcement of such rule could be beneficially applied to such additional area, the Commission shall determine whether or not such conditions do exist, and if it be shown that they do, then such rule, regulation, or order shall be enlarged to include such additional area.

None of the provisions of this Section shall apply to the purchase of any products of crude petroleum when made by the ultimate consumer from a retail distributor thereof.

SEC. 11. Article 6033 of the Revised Civil Statutes of Texas, 1925, is hereby amended so that the same shall hereafter read as follows:

"ARTICLE 6033. Owners or operators of oil or gas wells shall, before connecting with any oil or gas pipe line, secure from the Commission a certificate showing compliance with the oil and gas conservation laws of the State and conservation rules and regulations and orders of the Commission. No operator of a pipe line or other carrier shall connect with any oil or gas well until the owner or operator of such well shall furnish a certificate from the Commission that such conservation laws and such rules, regulations, and orders have been complied with; provided, this Section shall not prevent a temporary connection with any well in order to take care of production and prevent waste until opportunity shall have been given the owner or operator of such well to secure such certificate.

"The Commission shall have the power to cancel any certificate of compliance issued under the provisions of this Section when it appears that the owner or operator of a well covered by the provisions of same has violated or is violating, in connection with the operation of said well or the production of oil or gas therefrom, any of the oil or gas conservation laws of this State or any of the rules, regulations, or orders of the Commission promulgated thereunder. Upon notice from the Commission to the operator of any pipe line or other carrier connected to any such oil or gas well that the certificate of compliance with reference to such well has been cancelled by the Commission, the operator of such pipe line or other carrier shall disconnect from such well and it shall be unlawful for the operator of such pipe line or other carrier to transport oil therefrom until a new certificate of compliance has been issued by the Commission. Upon notice from the Commission that a certificate of compliance as to any oil or gas well has been cancelled by it as herein provided, it shall be unlawful for the owner or operator of such well to produce oil or gas therefrom until a new certificate of compliance covering such well has been issued by the Commission as herein provided?

SEC. 12. Article 6036 of the Revised Civil Statutes of Texas, 1925, as amended by Section 3, Chapter 26, Acts of the Forty-second Legislature, First Called Session, and as further amended by Section 2, Chapter 64, Acts of the Forty-third Legislature, Third Called Session, is hereby amended so that the same shall hereafter read as follows:

"ARTICLE 6036. In addition to being subject to any forfeiture that may be provided for by law and to any penalty that may be imposed by the Commission for contempt for the violation of its rules, regulations, or orders, any person violating any of the provisions of this Act or of Title 102, Revised Civil Statutes of Texas, 1925, as amended, or violating any rule, regulation, or order of the Commission promulgated thereunder, shall be subject to a penalty of not more than One Thousand Dollars ($1,000) for each and every day of such violation and for each and every act of such violation, to be recovered in any Court of competent jurisdiction in Travis County, or in the county of the residence of the defendant or, if there be more than one defendant, in the county of the residence of any of them, or in the county in which the violation is alleged to have occurred, such suit by direction of the Commission to be instituted and conducted in the name of the State of Texas by the Attorney General or by the county or district attorney where such suit is brought. The recovery or payment of any such penalty shall not authorize the violation of any provision of this Act, or Title 102, Revised Civil Statutes of Texas, 1925, as amended, or of any rule, regulation, or order of the Commission promulgated thereunder.

"Any person aiding or abetting any other person in the violation of this Act, or of Title 102, Revised Civil Statutes of Texas, 1925, as amended, or of any rule, regulation, or order of the Commission promulgated thereunder, shall be subject to the same penalties as are prescribed herein for violation thereof by any such other person."

SEC. 13. Whenever it shall appear that any person is violating or threatening to violate any provision of this Act, or of Title 102, of the Revised Civil Statutes of Texas, 1925, as amended, or of any rule, regulation, or order of the Commission promulgated thereunder, the Commission, through the Attorney General, shall

bring suit in the name of the State of Texas against such person in any Court of competent jurisdiction in Travis County, or in the county of the residence of the defendant or, if there be more than one defendant, in the county of the residence of any of them, or in the county in which such violation is alleged to have occurred, to restrain such person from violating such Statute or such rule, regulation, or order of the Commission, or any part thereof; and in such suit the Commission in the name of the State of Texas may obtain such injunctions, prohibitory and mandatory, including temporary restraining orders and temporary injunctions, as the facts may warrant.

The violation by any person of any injunction granted under the provisions of this Section shall be sufficient grounds for the appointment by the Court, either upon its own motion or that of the Commission in the name of the State of Texas, of a receiver to take charge of such properties of such person, and to exercise such powers as in the judgment of the Court shall be necessary in order to bring about compliance with such injunction; provided, however, that no such receiver shall be appointed except after notice and hearing. The power to appoint a receiver as herein provided shall be in addition to and cumulative of the power to punish for contempt.

SEC. 14. Section 8, Chapter 26, Acts of the Forty-second Legislature, First Called Session, as amended by Section 8, Chapter 2, Acts of the Forty-second Legislature, Fourth Called Session, is hereby amended so that the same shall hereafter read as follows:

Sec. 8. Any interested person affected by the conservation laws of this State relating to crude petroleum oil or natural gas, and the waste thereof, including this Act, or by any rule, regulation or order made or promulgated by the Commission thereunder, and who may be dissatisfied therewith, shall have the right to file a suit in a Court of competent jurisdiction in Travis County, Texas, and not elsewhere, against the Commission, or the members thereof, as defendants, to test the validity of said laws, rules, regulations or orders. Such suit shall be advanced for trial and be determined as expeditiously as possible and no postponement thereof or continuance shall be granted except for reasons deemed imperative by the Court. In such trials, the burden of proof shall be upon the party complaining of such laws, rule, regulation or order; and such laws, rule, regulation or order so complained of shall be deemed prima facie valid."

SEC. 15. Section 6-a, Chapter 2, Acts of the Forty-second Legislature, Fourth Called Session, is hereby amended so that the same shall hereafter read as follows:

"Sec. 6-a. It is further provided that in the administration of this Act the Commission shall, at all times, take into consideration and protect the rights and interests of the purchasing and consuming public of crude oil, and all of its products, such as gasoline, and lubricating oil; provided however, that if this Section be held for any reason unconstitutional the remaining Sections of this Act shall, nevertheless, be valid; and it is declared that such remaining portions would have been included in this Act though this particular Section had been omitted."

SEC. 16. This Act shall be cumulative of all laws of the State of Texas, not inconsistent herewith and not hereby expressly repealed or amended.

SEC. 17. Articles 6007, 6009, 6011, and 6017 of the Revised Civil Statutes of Texas, 1925; Section 6, Chapter 313, Acts of the Forty-first Legislature, Regular Session; Sections 4 and 6, Chapter 26, Acts of the Forty-second Legislature, First Called Session; Section 14, Chapter 2, Acts of the Forty-second Legislature, Fourth Called Session; and Section 1, Chapter 64, Acts of the Forty-third Legislature, Third Called Session, are hereby repealed. All other laws and parts of laws in conflict or inconsistent with any of the provisions of this Act are hereby repealed. No violation committed and no liability, penalty or forfeiture, incurred prior to the time when any Statute, or part thereof, repealed or altered by the provisions of this Act, shall be discharged or affected by such repeal or alteration; but prosecutions and suits for such violations, liabilities, penalties and forfeitures, shall be instituted and proceeded with in all respects as if such prior Statute, or part thereof, had not been repealed or altered, except that where the mode of procedure or matters of practice have been changed by the provisions of this Act, the procedure had after this Act shall have taken effect in such prosecution or suit shall be, as far as is practicable, in accordance with the provisions of this Act. The amendment, repeal or expiration of a rule, regulation or order of the Commission, made or promulgated under the provisions of this Act, or of Title 102, Revised Civil Statutes of Texas, 1925, as amended shall not have the effect of releasing or discharging any person violating said rule, regulation or order

prior to the effective date of such amendment, repeal or expiration from any liability, penalty or forfeiture incurred prior to such effective date; but prosecutions and suits for such violations, liabilities, penalties or forfeitures shall be instituted and proceeded with in all respects as if such rule, regulations or order had not been amended, or repealed, or had not expired.

SEC. 18. Nothing in this Act shall be construed to repeal Chapter 36, Acts of the Forty-first Legislature, Fifth Called Session, known as the "Common Purchaser Act," and the amendments thereto, except as specifically repealed hereby or inconsistent herewith; and this Act shall not be construed to repeal or modify Chapter 97, Acts of the Forty-third Legislature, Regular Session known as the "Marginal Well Act."

SEC. 19. It is especially provided that nothing herein shall in any manner affect, alter, diminish, change, or modify the anti-trust and/or monopoly Statutes of this State, and that no provisions of this Act shall in any manner directly or indirectly authorize a violation of such anti-trust and/or monopoly Statutes, and in this connection it is hereby declared and especially provided by the Legislature of the State of Texas enacting this legislation that notwithstanding the provisions of any other section of this Act, it is the legislative intent that no provision of this Act shall in any manner authorize a violation of such anti-trust and/or monopoly Statutes; and it is further especially provided that if any provision of this Act shall be so construed by any Court of this State, then in that event any such section, sub-section, Sentence, or clause or any provision of this Act so construed as conflicting with said monopoly and/or anti-trust Statutes, is hereby declared null and void rather than the anti-trust and/or monopoly Statutes of this State. The legislative intent herein expressed is to prevail and take precedence over the provisions of any other section or sections of this Act, regardless of any statement therein to the contrary.

SEC. 20. The provisions of this Act shall end and terminate September 1, 1937.

SEC. 21. If any section, portion, clause or part of this Act be invalid or unconstitutional, the same shall not affect any remaining parts of this Act and it is expressly hereby declared that the Legislature would have passed such remaining parts of this Act with such invalid or unconstitutional section, portion, clause or part omitted.

SEC. 22. The fact that Chapter 2, Acts of the Forty-second Legislature, Fourth Called Session, containing some of the more important provisions of the oil and gas conservation laws of this State, expires by its terms September 1, 1935, and the fact that there are certain conflicts and inconsistencies now appearing in such conservation laws which need to be removed and reconciled, and the fact that the effective enforcement of the conservation laws requires certain changes in the provisions relating to procedure and enforcement, create an emergency and an imperative public necessity that the Constitutional Rule requiring that bills be read on three several days in each House be suspended, and said Rule is hereby suspended, and this Act shall take effect and be in force from and after its passage, and it is so enacted.

Weekly Index, published weekly from Austin by Texas State House Reporter

[This exhibit shows type of work done by the Texas Commission in oil and gas conservation]

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Martin County: Hearing called	July 22	4
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North La Ward: Hearing called	July 23	5
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Orange: Hearing called	July 24	6
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[From the Texas State House Reporter, Vol. 21, No. 83, July 27, 1953]

Oil Regulation Report

Gas—Marketed production

The United States Bureau of Mines' quarterly report on marketed gas production shows a 5 percent increase for 1953 over the first quarter of 1952. The increase in United States total was 74,500 million cubic feet, from 2,152,000 to 2,226,500. But the west south central region which includes Texas, shows an increase of 79,000 million cubic feet, thus accounting for all of the increase and making up for declines in other regions. The tables compare the first quarters of 1952 and 1953, in million cubic feet.

Region	Marketed production	Net stored	Consumption				
			Residential	Commercial	Industrial	Field	Carbonbla
1951							
West South Central:							
Arkansas	13,600						
Louisiana	276,600						
Oklahoma	192,700	−1,300					
Texas	1,094,500						
Total	1,577,400	−1,300	80,100	33,700	416,400	271,400	79,600
United States total	2,152,000	−95,400	669,400	193,000	924,800	367,400	98,800
1952							
West South Central:							
Arkansas	12,800						
Louisiana	307,400						
Oklahoma	171,500	−6,800					
Texas	1,164,700						
Total	1,656,400	−6,800	89,600	39,500	416,500	297,200	59,200
United States total	2,226,500	−108,300	716,500	208,400	949,500	394,100	78,800

Block II Devonian—field rules adopted

Rules were adopted Monday for the block II Devonian field of Andrews County, as a result of a commission-called hearing June 4.

They call for 330/933-foot spacing for wells to the same reservoir; 40-acre proration units with no more than 1 well, 20-acre tolerance and a limit of 2,200 feet between the farthermost points; allocation formula based 75 percent on acreage and 25 percent on the well; 150 feet of 600-pound test surface casing cemented to the surface with 24-hour waiting-time and 1,000-pound pump pressure tests; oil string of 3,000-pound test pipe set no higher and top of pay and cemented with 1.5 times the calculated amount necessary to fill to 600 feet above the uppermost producing horizon, with 24-hour waiting time and 1,200-pound pump pressure tests; and datum reservoir pressure tests at (—) 4,950 feet to be taken each year during the 3 months prior to November 1 after a 48-hour shutin.

Block II Southwest Devonian—field rules adopted

The Railroad Commission Monday adopted rules for the block II Southwest Devonian field of Andrews County, as a result of a commission-called hearing May 8. They are identical with those for the block II Devonian field above.

Plemons (Strawn)—casing rule lightened

The Railroad Commission Monday reduced from 150 to 100 feet the surface casing requirement for the Plemons (Strawn) field of Jack County. The change results from a hearing held April 15 on request of Plemons Production Co.

Statistical—Texas stocks gain

Stocks of Texas crude gained 807,000 barrels during the week which ended July 18, the Bureau of Mines report showed Monday. Total stocks in the United States declined 184,000 barrels, while foreign stocks in the United States declined 44,000 barrels. The tables for the last 2 weeks and the month-ago week, in thousands of barrels:

	July 20	July 11	July 18	Change from July 11	Change from June 20
Texas	131,247	133,340	134,147	807	2,900
East Texas proper	10,891	11,197	11,057	−104	166
West Texas	61,894	61,794	63,195	1,401	1,301
Gulf Texas	25,977	26,054	26,383	329	406
Other Texas	32,485	34,295	33,512	−783	1,027
Panhandle	3,670	3,735	3,823	88	153
North	8,365	9,566	8,923	−643	358
South	4,961	4,812	4,955	143	−6
Rest of State	15,289	16,182	15,811	−371	522
California (excluding foreign)	32,861	33,537	33,528	−9	667
Foreign	2,535	2,546	2,456	−90	−79
Other foreign	8,813	7,438	7,484	46	−1,329
Total crude stocks in United States	278,543	279,813	279,629	−184	1,086

Anson townsite (Flippen lime)—field rules adopted

Rules were adopted Monday by the railroad commission for the Anson townsite (Flippen lime) field of Jones County, as a result of a commission-called hearing June 17.

They call for 330–660-foot spacing for wells to the same reservoir; 10-acre proration units with no more than 1 well, 5-acre tolerance, and a limit of 1,100 feet between the farthermost points; allocation formula based 50–50 on acreage and the well; 60 feet of surface casing of sufficient strength (or more if required by the State board of water engineers), cemented to the surface with 24-hour waiting time and 1,000-pound pump-pressure tests.

Richard King—Ratio rule revised

The railroad commission Monday revised rule 2 (A) for the Richard King field of Nueces County, to provide a 2,000:1 net gas-oil ratio limit. It results from a hearing held May 5 on application of Southern Minerals Corp., and replaces a 10,000:1 permitted injection gas-oil ratio limit. The revised rule gives credit on the ratio for gas returned to the reservoir, used on the lease, or sold for industrial purposes.

King-Wilson—Fields consolidated

The King-Wilson and Abercrombie-King fields of Archer County were combined Monday by the railroad commission, as a result of a hearing June 24 on application of Don L. Choate et al. The King-Wilson rules and name were adopted for the combined area.

Brazoria County—LPG storage permitted

The railroad commission Monday gave Dow Chemical Co. permission to store LPG underground in 2 cavities of 100,000 and 200,000 barrels capacity, under a fee tract of 276.56 acres out of the J. E. Groce 5 leagues grant, to be leached out of the Stratton Ridge salt dome topped at 1,313 feet.

Hearings—Notices issued

The Texas Railroad Commission Monday issued notices of the following hearings to be held in Austin:

Thursday, August 13

Chocolate Bayou field, Brazoria County: Application of the Phillips Petroleum Co. for dual completion of its Banfield well No. 2, addition of the Upper Houston Farms between 9,843 and 9,912 feet, and Lower Houston Farms 10,140–54 to the blanket list of dual completions, and permission to meter oil from 1 zone.

Tuesday, August 18

Round Top (Palo Pinto Reef) field, Fisher County: Applications of Lebus Bros. for discovery allowable rights and a new field designation for the producing reservoir in their Terrell et al. well No. 1.

Jack County: Application of the Warren Oil Corp. for discovery allowable rights and a new field designation for the producing reservoir in its Smith well No. 1.

Andrews County: Application of the Texas Co. for discovery allowable rights and a new field designation for the producing reservoir in its Parker B well No. 1.

Wednesday, August 19

Diego field, Duval County: Application of the Humble Oil & Refining Co. for shutdown exemption for its Garcia well No. 1.

Joyce Richardson fields, Harris County: Application of the Petroleum Management Co. for amendment of the field rules for the field.

Liberty County: Application of the Austral Oil Exploration Co. for discovery allowable rights and a new field designation for the producing reservoir in its Worrall well No. 1.

Rodman-Noel (Greyburg) field, Upton County: Application of the Trebol Oil Co. and E. G. Rodman for an MER determination for the field.

La Blanca—Rules amended

The railroad commission Monday amended rules 1 and 3 for the La Blanca field of Hidalgo County, as a result of a hearing held February 19 on application of La Gloria Corp.

Rule 1 now calls for 467–2,640-foot spacing for wells to the same horizon. Rule 3 as amended calls for an allocation formula based on bottomhole pressure times acreage for each reservoir. Pressure tests are to be made after 24-hour shutins and are to be taken during the periods designated by the commission's deputy supervisor for running 24-hour production test on form GWT–2.

Midfields—Net ratio rule adopted

A 2,000 : 1 permitted gas-oil ratio limit was adopted Monday by the railroad commission for the Midfields field of Matagorda County, as a result of a hearing held May 15 on application of Sun Oil Co. The usual monthly reports are required to obtain credit for gas returned to the west sand zone. The rule further requires semiannual gas-oil ratio determinations in March, April, May, and September, October, November. Reservoir pressure surveys are to be made each May and November on key wells to be approved by the commission's engineering department.

Waterflooding—Projects approved

The railroad commission Monday approved these two proposals for waterflooding projects:

Wichita County Regular: Tres Oil Co. to flood the 700-foot sand under its S. B. Burnett lease by injection through the No. 29 well, and additional wells if approved by the commission's engineering department.

Mirando City field, Webb County: Amigos Oil Co. and all other operators to flood the Mirando sand, after approval of individual plans by the engineering department, with waivers from offset operators required if proposed injection wells are less than 150 feet from the lease line. After a program is approved, operators may add injection wells or restore input wells to production, if the 150–300-foot spacing rule is complied with. A vacuum may be used on any well which is 300 feet from a lease line, or on closer ones if offset operators waive objection. Rule 2 was amended to permit use of a single string of pipe on any oil, gas, or injection well as long as the well is so cased that only the Mirando sand is open to the well bore.

Duals—Permits granted

The railroad commission Monday granted permission for the dual completion of these wells:

Sharp Ranch (6,700-foot sand) and (Frio sand), Jim Wells County; Magnolia Petroleum Co. No. 1 Boerjan.

Winnsboro (Young) and (Byrd), Wood County: Byrd Oil Corp. No. 1 Reynolds.

Kelsey Deep (zone 22) and (zone 23), Brooks County: Humble Oil & Refining Co. No. 185, McGill Bros. account 2.

East Ringgold (basal conglomerate), Montague County: Phillips Petroleum Co. No. 2 Grimsley.

Chapman Ranch, Nueces County: Chicago Corp. B No. 1–74 Chapman Ranch.

South Hutchins, Wharton County: Brazos Oil & Gas Co. Nos. 2 and 3 K. C. Martin.

EXHIBIT OF TESTIMONY, ERNEST O. THOMPSON, CHAIRMAN, TEXAS RAILROAD COMMISSION, OIL AND GAS DIVISION, AUSTIN, TEX.; JULY 23, 1953

Imports (daily average barrels)—Statement concerning imports of crude oil and products into the United States as submitted by importing companies in compliance with Texas Senate Resolution No. 79 and House of Representatives Resolution No. 103

Company	Source	Gravity API	Crude oil (barrels)					
			Imports			Forecast of imports		
			June	July	August	September	October	November
The Atlantic Refining Co	Venezuela	38–44°	24,200	20,000	20,000	20,000	20,000	20,000
	do	29–32°	23,400	20,200	20,200	20,200	20,200	20,200
	do	14–16°	6,900	7,900	7,900	7,900	7,900	7,900
Cities Service Co	Kuwait	31°	12,600	6,000	6,000	6,000	6,000	6,000
	Venezuela	10.3–17.5°	5,008	8,064	9,677	2,333	9,677	0
Eastern States Petroleum Co	Mexico	11–19.4°	5,960	3,065	3,065	3,667	8,064	2,500
Gulf Oil Corp	do	9–19°	10,000	9,500	9,500	7,000	7,000	7,000
	Venezuela	Above 25°	34,000	27,000	42,000	40,000	38,000	40,000
	do	Below 25°	11,000	10,000	3,000	11,000	7,000	10,000
	Kuwait	Above 25°	83,000	81,000	49,000	64,000	55,000	57,000
Phillips Petroleum Co	Venezuela	43.5°	6,772	6,452	6,452	6,667	6,452	6,667
Sinclair Oil Corp	do	30–35°	53,900	52,400	53,100	51,000	51,000	51,000
	Middle East	30–35°	8,600	8,400	3,900	12,700	11,600	12,700
	do	36–41°	3,800	9,200	3,900	3,800	5,500	4,000
Socony-Vacuum	Venezuela	34–35°	22,099					
	Colombia	20–21°	0					
	do	32–33°	23,941	85,323	86,613	83,500	88,065	88,667
	Iraq	35–36°	0					
	Saudi Arabia	35–36°	12,975					
	Kuwait	31–33°	24,114					
	Qatar	40–41°	[1] 3,869	0	[1] 3,806	[1] 3,933	0	0
Standard Oil Co. of California	Venezuela	34–35°	[2] 3,959	[2] 3,806	0	0	[2] 7,613	[2] 3,933
	Arabia	35°	71,550	56,500	56,500	56,500	56,500	56,500
	Sumatra	35°	31,383	29,900	29,900	29,900	29,900	29,900
	Venezuela	16–54°	8,666	4,000	4,000	4,000	4,000	4,000
	do	Asphalt, crude	12,907	17,000	17,000	17,000	17,000	17,000
	Qatar	39°	0	3,100	3,100	3,100	3,100	3,100
Standard Oil Co. (Indiana)	Venezuela	10–17° (asphalt, crude)	9,810	19,100	16,300	15,800	12,900	10,000
Standard Oil Co. (New Jersey) [3]	Colombia	Under 25°	24,000	15,000	15,000	15,000	22,000	22,000
	Venezuela	Under 25°	27,000	35,000	35,000	35,000	26,000	26,000
	do	Over 25°	32,000	31,000	31,000	31,000	43,000	43,000
Sun Oil Co	do	26°	4,286	3,710	3,710	3,833	0	0
	do	30–32°	0	3,871	0	4,000	0	4,000
	do	35°	0	0	0	7,333	3,871	7,333
	do	40–43.5°	4,716	4,032	4,032	4,167	4,032	4,167

See footnote at end of table.

EXHIBIT OF TESTIMONY, ERNEST O. THOMPSON, CHAIRMAN, TEXAS RAILROAD COMMISSION, OIL AND GAS DIVISION, AUSTIN, TEX.; JULY 23, 1953

Imports (daily average barrels)—Statement concerning imports of crude oil and products into the United States as submitted by importing companies in compliance with Texas Senate Resolution No. 79 and House of Representatives Resolution No. 105—Continued

Company	Source	Gravity API	Crude oil (barrels)					
			Imports			Forecast of imports		
			June	July	August	September	October	November
The Texas Co	do	29-31.5°	15,665	21,419	22,250	19,167	18,548	23,000
	do	16°	0	3,387	2,387	3,500	3,387	0
	Saudi Arabia	35°	47,704	28,236	46,395	38,833	39,565	40,000
	Sumatra	35.5°	11,874	12,581	4,677	10,516	8,710	10,000
Total, crude oil			681,685	646,136	620,364	642,343	641,584	635,567
Asiatic Petroleum Corp	Netherlands Antilles	Bonded fuel oil	(11,000)	(9,200)	(4,300)	(6,000)	(7,500)	(6,700)
Eastern States Petroleum Co., Inc	Mexico	Bunker C. fuel oil	6,700	8,000	8,000	8,000	8,000	8,000
	do	Reduced crude	3,300	4,000	4,000	4,000	4,000	4,000
Gulf Oil Corp	Venezuela	Residual fuel	10,000	0	10,000	11,000	13,000	11,000
	do	Gas oil	2,000	2,000	2,000	2,000	2,000	2,000
Shell Caribbean Petroleum Co.[4]	Venezuela and/or Netherlands Antilles.	Residual fuel	76,000	72,000	70,000	77,000	120,000	141,000
Shell Oil Co	do	Bunker C. fuel oil	1,300	3,226	3,226	3,334	3,226	3,334
	do	do	(5,433)	(2,258)	(2,225)	(2,333)	(2,258)	(2,333)
	do	Finished asphalt	8,800	6,774	6,774	7,000	6,774	7,000
Socony-Vacuum Oil Co	do	Bunker fuel and diesel	(7,948)	(10,213)	(10,213)	(10,552)	(10,213)	(10,552)
Standard Oil Co. (Indiana)[5]	do	Residual fuel	23,300	22,300	20,000	33,300	35,500	36,700
Standard Oil Co. (New Jersey)[5]	Venezuela	−25°	11,000	13,000	13,000	13,000	12,000	12,000
	do	+25°	0	0	0	0	0	0
	do	−25°	(7,000)	(10,000)	(10,000)	(10,000)	(10,000)	(10,000)
	Netherlands Antilles	−25°	38,000	58,000	55,000	55,000	108,000	108,000
	do	−25°	(38,000)	(48,000)	(48,000)	(48,000)	(49,000)	(49,000)
	do	+25°	(4,000)	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
The Texas Co	Caribbean	Residual fuel	3,536	0	6,452	3,333	6,452	6,667
Total products			257,317	266,971	274,190	294,852	398,923	419,286
Total crude oil and products			939,002	913,107	894,554	937,195	1,040,507	1,054,853
Less bonded fuel oil			(73,381)	(80,671	(75,738)	(77,885)	(79,971)	(79,585)
Total crude oil and products less bonded fuel oil			865,621	832,436	818,816	859,310	960,536	975,268

[1] Imported by General Petroleum, Inc., to replace a cargo of California crude for export to an affiliated company.
[2] Imported by General Petroleum, Inc.
[3] June imports preliminary figure, July, August, and September, based on 3d quarter estimate; October and November based on 4th quarter estimate.
[4] Shell Caribbean Petroleum Co. does not import either crude oil or products in its own name. The oil reported herewith was principally residual fuel oil sold to independent distributors on east coast.

[5] Received through suppliers who can furnish either foreign or domestic fuel oil at his own election. Estimates for July and August based on preliminary shipping schedules, while estimates of products imports for September through November assume that entirely foreign fuel oil will be supplied.

EXHIBIT FROM TESTIMONY OF ERNEST THOMPSON, JULY 23, 1953

MINERAL INDUSTRY SURVEYS—UNITED STATES DEPARTMENT OF THE INTERIOR, BUREAU OF MINES

Douglas McKay, Secretary — J. J. Forbes, Director

For immediate release: July 23, 1953 — Weekly Crude oil stock report No. 1031

Stocks of domestic and foreign crude petroleum at the close of the week ended July 18 totaled 279,629,000 barrels, according to data reported to the Bureau of Mines, United States Department of the Interior. Compared with the total of 279,813,000 barrels for the preceding week, this represents a decrease of 184,000 barrels comprising a decrease of 140,000 barrels in stocks of domestic crude and a decrease of 44,000 barrels in stocks of foreign crude.

Current reports of the industry for the week ended July 18 indicate an increase in crude-oil production and a decrease in crude runs. According to the A. P. I., the daily average output of crude (including lease condensate) was 6,551,000 barrels, an increase of 35,000 barrels from the revised figure of 6,516,000 of the preceding week. Daily average crude runs to stills of 7,088,000 barrels were 179,000 barrels below the preceding week, and 269,000 barrels above the week ended July 19, 1952. Runs of foreign crude amounted to 675,000 barrels daily compared with 672,000 barrels in the preceding week. For the 4-week period ending July 18 crude oil production averaged 6,501,000 barrels daily and crude runs to stills averaged 7,114,000 barrels daily with runs of foreign crude averaging 687,000 barrels daily.

Stocks of crude petroleum June 20, July 11 and 18, 1953

[Thousands of barrels]

	June 20	July 11	July 18	Change from—	
				July 11	June 20
Pennsylvania grade	2,648	2,563	2,549	−14	−99
Other Appalachian	2,410	2,104	2,054	−50	−356
Lima-Michigan	626	604	575	−29	−51
Illinois-Indiana	11,292	11,710	11,555	−155	263
Arkansas	2,698	2,836	2,802	−34	104
Kansas	9,190	9,355	9,256	−99	66
Louisiana	15,740	15,773	15,414	−359	−326
North	2,574	2,513	2,450	−63	−124
Gulf	13,166	13,260	12,964	−296	−202
Mississippi	3,762	3,748	3,724	−24	−38
New Mexico	7,293	7,136	7,109	−27	−184
Oklahoma	29,847	30,190	29,843	−347	−4
Texas	131,247	133,340	134,147	807	2,900
East Texas proper	10,891	11,197	11,057	−140	166
West Texas	61,894	61,794	63,195	1,401	1,301
Gulf Texas	25,977	26,054	26,383	329	406
Other Texas	32,485	34,295	33,512	−783	1,027
Panhandle	3,670	3,735	3,823	88	153
North	8,565	9,566	8,923	−643	358
South	4,961	4,812	4,955	143	−6
Rest of State	15,289	16,182	15,811	−371	522
Wyoming	14,103	13,873	13,653	−220	−450
Other Rocky Mountain	3,478	3,060	3,480	420	2
California:					
Excluding foreign	32,861	33,537	33,528	−9	667
Foreign	2,535	2,546	2,456	−90	−79
Other foreign	8,813	7,438	7,484	46	−1,329
Total crude stocks in United States	278,543	279,813	279,629	−184	1,086
Total located in PAW District 1	20,075	18,683	19,173	490	−902
Total located in PAW District 2	89,649	89,511	89,317	−194	−332

Source: Prepared under the supervision of H. J. Barton, Petroleum and Natural Gas Economics Coordinator, Petroleum and Natural Gas Branch, Fuels and Explosives Division.

TESTIMONY OF ERNEST O. THOMPSON, JULY 23, 1953

Railroad Commission of Texas, Oil and Gas Division—Average calendar-day allowable as of July 25, 1953

District	Well (1)	Schedule daily allowable (2)	Exemption allowable (3)	Schedule daily allowable subject to shut-down days (4)	Column No. 4 converted to calendar day basis (5)	Total average calendar day allowable, column 3+column 3 (6)
1	4,384	55,288	26,834	28,454	19,275	46,109
2	4,959	238,101	13,846	224,255	151,915	165,761
3	11,294	654,470	166,413	488,057	330,619	497,032
4	11,631	384,221	66,975	317,246	214,822	281,797
5	2,338	81,911	10,076	71,835	43,436	53,512
6 [1]	3,499	198,406	21,587	176,819	114,184	135,771
6 [2]	21,001	417,564	15,565	401,999	233,419	248,984
7–B	11,022	208,770	56,237	152,542	103,335	159,572
7–C	5,454	326,177	31,935	294,242	169,457	201,392
8	33,293	1,459,340	158,344	1,300,996	859,271	1,017,615
9	25,408	323,908	121,907	203,701	137,991	259,898
10	8,420	98,445	95,389	3,056	2,070	97,459
Total	142,703	4,448,310	785,108	3,663,202	2,379,794	3,164,902

[1] Denotes all of district No. 6 except the east Texas field.
[2] Denotes the east Texas field.

Total number of wells as of July 25, 1953	142,703
Total number of wells as of July 18, 1953	142,571
Increase	132
Total average calendar day allowable as of July 25, 1953	3,164,902
Total average calendar day allowable as of July 18, 1953	3,156,576
Increase	8,326
Total number of fields	3,620
Total number of fields exempt	373

Railroad Commission of Texas, Oil and Gas Division—Weekly drilling report by fields of the Railroad Commission of Texas covering regular drilling operations, rule 37 application, denied, granted, oil-well completions, gas-well completions, wells plugged, dry holes drilled, and wildcat completions from July 19, 1953, to July 25, 1953

RECAPITULATION FOR THE STATE

	Total for the week	Total for the year	Total for same period 1952
Regular drilling applications	287	10,821	10,955
Rule 37 applications:			
Filed	29	927	856
Granted	35	750	746
Denied	0	14	12
Oil-well completions	224	5,983	6,439
Gas-well completions	30	524	488
Dry holes	118	3,817	3,658
Wildcats drilled:			
Oil	17	334	347
Gas	0	43	36
Dry	70	2,080	2,137
Wells plugged:			
Dry	118	3,817	3,668
Gas	0	91	96
Oil	32	1,261	1,261
Total plugged	150	5,169	5,025

Railroad Commission of Texas, Oil and Gas Division—Weekly drilling report by fields of the Railroad Commission of Texas covering regular drilling operations, rule 37 application, denied, granted, oil-well completions, gas-well completions, wells plugged, dry holes drilled, and wildcat completions from July 19, 1953, to July 25, 1953—Continued

BY DISTRICTS

District	Regular	Rule 37		Completed		Dry holes drilled	Plugged			Wildcats drilled		
		Denied	Granted	Oil	Gas		Dry	Gas	Oil	Oil	Gas	Dry
1	12	0	3	7	0	4	4	0	0	0	0	4
2	16	0	2	7	0	8	8	0	1	1	0	4
3	20	0	9	21	2	12	12	0	4	3	0	6
4	32	0	8	37	9	4	4	0	0	1	0	2
5	2	0	1	0	0	6	6	0	0	0	0	1
6	7	0	6	7	0	5	5	0	5	0	0	1
7-B	56	0	2	39	0	28	28	0	8	3	0	20
7-C	20	0	0	21	0	9	9	0	0	2	0	6
8	43	0	0	21	1	5	5	0	0	0	0	4
9	70	0	3	61	0	34	34	0	14	7	0	21
10	9	0	1	3	18	3	3	0	0	0	0	1
Total all districts	287	0	35	224	30	118	118	0	32	17	0	70

APPENDIX TO THE STATEWIDE HEARING, FEBRUARY 18, 1953

Comparative bottom-hole pressure data, east Texas field as between January 1, 1953, and February 1, 1953

The area weighted average bottom-hole pressure for the east Texas field as of February 1, 1953, was 1,022.34 p. s. i. On January 1, 1953, the area weighted average bottom-hole pressure was 1,023.10 p. s. i. During the period from January 1, 1953, to February 1, 1953, the area weighted average pressure decrease was 0.76 p. s. i. The allowable for this pressure period was 8,146,216 barrels and the daily average allowable was 262,781. The pressure decrease per 1-million-barrel oil withdrawal during the 31-day period, based upon the area weighted average bottom-hole pressure, was 0.09329 p. s. i.

The daily average salt-water injection for the month of January 1953 was 403,666 barrels and the daily average salt-water injection for the month of December 1952 was 403,392 barrels, or an increase of 274 barrels per day.

ENGINEERING DEPARTMENT, OIL AND GAS DIVISION,
RAILROAD COMMISSION OF TEXAS.

FEBRUARY 12, 1953.

Question 1. What do you consider ample stocks in the United States?

Estimated adequate stocks of crude and products—Statement concerning desirable stock levels as suggested by purchasing and importing companies in reply to questionnaire circulated by the commission

[Millions of barrels]

Company	Crude oil		Gasoline		Kerosene		Distillate		Residual	
	May 1, 1953	Nov. 1, 1953	May 1, 1953	Nov. 1, 1953	May 1, 1953	Nov. 1, 1953	May 1, 1953	Nov. 1, 1953	May 1, 1953	Nov. 1, 1953
The Atlantic Refining Co	271.0	275.6	151.1	119.7	15.8	37.1	55.4	126.7	38.4	53.2
Cities Service Cos	260.0	260.0	153.0	120.0	19.0	34.0	53.0	123.0	40.0	50.0
Continental Oil Co	255–260.0	255–260.0	150–155.0	125–130.0	19–20.0	33–34.0	50–55.0	120–125.0	38–40.0	48–50.0
Gulf Oil Corp	260.0	260.0	156.0	125.0	(1)	(1)	[1] 65.0	[1] 150.0	40.0	55.0
Humble Oil & Refining Co	[2] 260–274.0	260–274.0	157–167.0	122–133.0	17–18.0	34–37.0	46–51.0	111–119.0	34–39.0	48–50.0
Magnolia Petroleum Co	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)	(3)
Phillips Petroleum Co	270.0	270.0	157.0	126.0	17.0	35.0	52.0	124.0	38.0	5..0
Shell Caribbean Petroleum Co										
Shell Oil Co	265.0	268.0	155.0	125.0	18.0	35.0	52.0	125.0	40.0	55.0
Sinclair Oil Corp	270.0	275.0	148–152.0	124–128.0	16–18.0	30–32.0	52–56.0	110–116.0	36–38.0	50–54.0
Socony-Vacuum Oil Co., Inc	265.0	270.0	154.5	125.8	16.8	34.7	50.8	125.5	38.1	50.3
Standard Oil Co. of California	260.0	260.0	150.0	125.0	19.0	34.0	55.0	125.0	40.0	45.0
Standard Oil Co. (Indiana)	260.0	260.0	155.0	125.0	18.0	37.0	53.0	120.0	38.0	50.0
Standard Oil Co. (New Jersey)	260–270.0	260–270.0	150–155.0	123–128.0	18–20.0	35–38.0	50–55.0	125–130.0	35–37.0	49–52.0
Sun Oil Co	265.0	275.0	150.0	125.0	20.0	35.0	60.0	120.0	40.0	55.0
The Texas Co	260.0	260.0	145.0	120.0	20.0	33.0	45.0	120.0	35.0	45.0
Actual reported stocks, Bureau of Mines (Feb. 7, 1953)	270.2		152.5		22.3		78.2		45.8	

[1] Kerosene, light burning oils, diesel oils combined.
[2] Reflects stocks Apr. 1, 1953 and Oct 1, 1953.
[3] Refer to Socony-Vacuum Oil Co., Inc.

Question 3. Does your company or any of its subsidiaries import crude or oil products. If so, please give your schedule daily imports crude and products for 1953 by gravities.

Imports

[Daily average barrels]

Company	Crude oil						Total crude oil	Products		Total products	Total imports
	Barrels	Gravity	Barrels	Gravity	Barrels	Gravity		Barrels	Products		
The Atlantic Refining Co	7,300	14-19	29,800	29-32.0	19,500	38-44.0	56,600	0		0	56,600
Cities Service Cos	2,901	11	5,617	17.5			8,518	0		0	8,518
Continental Oil Co			0				0	0		0	0
Eastern States Petroleum Co., Inc	7,000	9-19					7,000	8,000	Topped crude and fuel oil	8,000	15,000
Gulf Oil Corp	9,000	15	98,000	31-32.0			107,000	13,000	Residual 15	13,000	120,000
Humble Oil & Refining Co			0				0	0		0	0
Magnolia Petroleum Co			0				0	0		0	0
Phillips Petroleum Co					6,500	42.0	6,500	0		0	6,500
Shell Caribbean Petroleum Co			0				0	[1] (10,000)	Fuel oil in bond	(10,000)	(10,000)
Shell Oil Co			0				0	6,850 5,348	Finished asphalt Bunker C fuel oil 10	12,198	12,198
Sinclair Oil Corp			68,000	32-33.0			68,000	0		0	68,000
Socony-Vacuum Oil Co., Inc	1,300	25-	91,500	25+			[2] 92,800	(1,000) (8,000)	Bonded fuel oil above 25 Bonded fuel oil below 25	(9,000)	(9,000) 92,800
Standard Oil Co. of California	[3] 16,000		80,000	35.0	11,000	32-54.0	107,000	0		0	107,000
Standard Oil Co. (Indiana)	[4] 13,000	10-17					[4] 13,000	35,000	Bunker C fuel oil 10-14	[4] 35,000	48,000
Standard Oil Co. (New Jersey)	58,000	[5] 18	40,000	[5] 37.0			98,000	(62,000) 103,000	Bunker fuel oil bonded Residual fuel	(62,000) 103,000	(62,000) 201,000
Sun Oil Co	1,575	26	6,781	32-35.0	2,740	42.0	11,096	0		0	11,096
The Texas Co	2,500	16	15,000	29-31.0	44,900	35-35.5	62,400	6,800	Residual fuel	6,800	69,200
Total imports including bonded products							637,914			258,998	896,912
Less bonded products											(81,000)
Total imports less bonded products											815,912

Gravity degrees API.

[1] Imported by Asiatic Petroleum Corp. in bond for its ships bunkers customers.
[2] May have to import 3,000 to 5,000 barrels per day crude during last half of 1953 to make up supply shortage in California.
[3] Asphalt crude.
[4] Imported by Pan American Petroleum & Transport Co.
[5] Average.

Question 4. Have you sold oil abroad to others for importation into the United States? If so, how much per day is contemplated? (Companies answering no to question 3 not shown.)

Company	Crude oil		Total crude oil	Products		Total products	Total imports
	Barrels	Gravity		Barrels	Products		
The Atlantic Refining Co	4,000	31–32	4,000	0		0	4,000
Gulf Oil Corp	(1)		0	0		0	0
Phillips Petroleum Co	1,200	32	1,200	0			1,200
Shell Caribbean Petroleum Co			0	110,000	Fuel oil residual	110,000	110,000
Socony-Vacuum Oil Co., Inc	(1)		0	0		0	0
Standard Oil Co. of California	[1] 5,800		5,800			0	5,800
Standard Oil Co. (New Jersey)	[2] 85,000		[2] 85,000	[2] 25,000	Fuel oil	[2] 25,000	110,000
Total	96,000		96,000	135,000		135,000	231,000

Gravity degrees API.

[1] No amount given.
[2] Asphalt crude.
[3] Will be sold abroad. Selling company unable to forecast how much of this crude will be imported.

Question 5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production[Question 6. Do you expect an increase in United States domestic demand for petroleum in 1953? If so, please estimate what your study reflects percentage-wise.

Question 7. Do you contemplate a further steel shortage as affecting oil-well drilling in 1953?

Company	Question			
	5	6		7
			Percent	
The Atlantic Refining Co	(1)	Yes	6.7	Yes; but easing considerably.
Cities Service Cos	Yes	Yes	[2] 4.9	Oil tubular goods will be tight but not to extent that drilling will have to be curtailed.
Continental Oil Co	Yes	Yes	4.1	No.
Gulf Oil Corp	Yes	Yes	5.0–6.0	Not to any appreciable extent.
Humble Oil & Refining Co	Yes	Yes	4.0–5.0	Not after 1st 6 months.
Magnolia Petroleum Co	(1)	Yes		About in balance if drilling is about same as 1952.
Phillips Petroleum Co	Yes		5.0	Will affect drilling to some extent in early 1953. No difficulty during 2d half of year.
Shell Caribbean Petroleum Co	Yes		(1)	(1).
Shell Oil Co	Yes	Yes	4.5	No.
Sinclair Oil Corp	Yes	Yes	5.0	No.
Socony-Vacuum Oil Co., Inc	(1)	Yes	4.9	About in balance if drilling is about same as 1952.
Standard Oil Co. of California	Yes	Yes	4.0–5.0	Oil tubular goods still under control, but by 3d quarter we contemplate adequate supplies if controls are removed.
Standard Oil Co. (Indiana)	Yes	Yes	5.0	Not to any great extent.
Standard Oil Co. (New Jersey)	(2)	Yes	5.0–6.0	Will not interfere seriously.
Sun Oil Co	Yes	Yes	3.0–5.0	Should prove reasonably adequate.
The Texas Co	Yes	Yes	4.3	Will interfere less than 1952.

[1] No answer.
[2] Increase percent: Motor fuel 4.4, kerosene 5.3, distillate 9.3, residual 2.7, other 2.9, total domestic demand 4.9.
[3] Adhere to policy stated by National Petroleum Council in its 1949 report, "A National Oil Policy for the United States."

ERNEST O. THOMPSON
Chairman, Railroad Commission of Texas

FEBRUARY 11, 1953.

To the Press:

The Railroad Commission of Texas requested that purchasing and importing companies fill out a questionnaire touching on their individual estimates of required stocks necessary to be on hand covering crude, gasoline, kerosene, distillate, and residual. These questionnaires were requested to be returned to the commission by February 10, and they are herewith attached so that the press and general public may be informed as to the conditions and prediction and estimates contained in these responses. They will come up for consideration before the Railroad Commission at its hearing at 8 a. m. February 18.

The Bureau of Mines' survey as of February 6 shows that crude stocks in the United States increased 4,018,000 barrels during the week January 24 to January 31, bringing total stocks of crude in the United States up to 270,641,000 barrels.

Gasoline stocks were 149,443,000 barrels; kerosene, 23,392,000 barrels; distillate, 82,148,000 barrels; residual, 46,918,000 barrels.

This totals some 46 million barrels greater overall stocks in storage, crude and products, than 1 year ago.

It is sometimes overlooked currently that the peak consuming season for oil or petroleum and its products overall has changed from the summertime to the wintertime. Formerly the heavy consuming season was from July 4 to Labor Day, when gasoline consumption was so high. The great shift to heating oil from coal 2 or 3 years ago changed the peak consuming season from summer to winter. This winter has been a mild one, and heating oils have accumulated greatly in storage.

A study of trends will show that demand for crude greatly drops off in the second quarter of the year; namely April, May, and June. Advanced studies indicate that the drop in demand for crude this year in the second quarter may be as much as 200,000 barrels per day. The demand will increase by about 100,000 barrels in the third quarter, and it is indicated that the fourth quarter will probably be about the same as the first quarter in 1953. This is certainly not encouraging.

The forecast as estimated by the Bureau of Mines for Texas crude for the month of March is 2,860,000 barrels daily. This is 20,000 barrels less than the February estimate.

The reservoir pressure in east Texas on February 1, 1953, showed a drop of 0.76 pound per square inch from pressure of January 1, the weighted bottomhole pressure average on February 1, being 1022.34 pounds per square inch.

The average salt water injection for January in the east Texas field was 403,666 barrels per day.

Texas law requires this commission to undertake to ascertain the market demand for Texas crude oil at all times.

It is forbidden by Texas statute to allow to be produced more oil than the market demand.

This commission has no legal control of imports, but we can point out how much oil is being imported and by whom. It seems that Texas crude is being supplanted by foreign crude by some companies. This works a hardship on Texas producers. The average Texas oil well produces 20 barrels per day. The average Persian Gulf area well produces 5,000 barrels of oil per day.

The import duty is 10½ cents per barrel on oil.

How can a Texas 20-barrel allowable compete with a 5,000-barrel well?

We have built up a reserve daily producing ability in Texas of 600,000 barrels of oil per day for defense. Now we are confronted with the threat of being supplanted with foreign crude. It does not seem fair.

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of company: The Atlantic Refining Co.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: V. L. Elliott, controller, making return, and L. A. Sunkel, vice president, will be present.

1. What do you consider ample stocks in the United States?

	May 1, 1953	Nov. 1, 1953
	Barrels	*Barrels*
Crude	271, 000, 000	275, 600, 000
Gasoline	151, 100, 000	119, 700, 000
Kerosene	15, 800, 000	37, 100, 000
Distillate	55, 400, 000	126, 700, 000
Residual	38, 400, 000	53, 200, 000

2. Do you consider total stocks today too high, too low, or about right? As of January 17, total United States petroleum stocks were tending toward the high side. An excess of 8 million barrels (1½ percent) is estimated, with a slightly less than desirable crude oil stocks partially offsetting an 11 million barrel surplus in stocks of major products. Overall condition is one that calls for near-term correction measure which would avoid a large adjustment later on.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude and products, for 1933 (by gravities).

Schedule of imports 1953, crude oil

[Daily average barrels]

A. P. I. gravities:	
14°–19°	7, 300
29°–32°	29, 800
38°–44°	19, 500
Total	56, 600

4. Have you sold oil abroad to others for importation into the United States? Yes. If so, how much per day is contemplated? 4,000 barrels daily of 31° to 32° crude.

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production?

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise.

We expect an increase of 6.7 percent in United States demand for petroleum products in 1953 over 1952.

7. Do you contemplate a further steel shortage as affecting oil-well drilling in 1953? Yes, but easing considerably.

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, Jr., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of company: Cities Service Co.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: B. S. Watson, executive vice president, making return, and C. S. Mitchell, vice president, will be present.

1. What do you consider ample stocks in the United States?

	May 1, 1953	Nov. 1, 1953
	Barrels	*Barrels*
Crude	260, 000, 000	260, 000, 000
Gasoline	153, 000, 000	120, 000, 000
Kerosene	19, 000, 000	34, 000, 000
Distillate	53, 000, 000	125, 000, 000
Residual	40, 000, 000	50, 000, 000

2. Do you consider total stocks today too high, too low, or about right? Stocks of crude oil are considered too high today and should be reduced to about 260 million barrels. Gasoline stocks, though not excessive today, appear to be rising overrapidly and will probably become excessive by the end of March. Kerosene and distillate stocks today are about right. Production of distillates between now and March 31 should be gaged so that the stocks are reduced to the 50-million-barrel level on that date. Residual inventory appears in line today with the exception that in district V it is higher than necessary.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude and products, for 1953 (by gravities).

[Figures in barrels daily]

	Crude		Refined products
	Mexico 11°	Venezuela 17.5°	
1953—			
January	2, 226	4, 839	(1)
February	5, 357	5, 357	(1)
March			
April	2, 333	5, 000	(1)
May	2, 258	6, 452	(1)
June	4, 667	6, 666	(1)
July	2, 258	6, 452	(1)
August	4, 516	6, 452	(1)
September	2, 333	6, 667	(1)
October	4, 516	9, 678	(1)
November	2, 333	6, 666	(1)
December	2, 258	3, 226	(1)
Total	2, 901	5, 617	(1)

[1] No refined-oil imports anticipated.

4. Have you sold oil abroad to others for importation into the United States? No. If so, how much per day is contemplated?

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? We are in complete accord with the policy expressed by the National Petroleum Council in early 1950 that imports should be used only to supplement United States production and not to supplant it.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise.

	Percent increase over 1952
Motor fuel	+4.4
Kerosene	+5.3
Distillate	+9.3
Residual	+2.7
Other	+2.9
Total domestic demand	+4.9

7. Do you contemplate a further steel shortage as affecting oil-well drilling in 1953?

It is our belief that oil-country tubular goods will be tight during 1953 but not to the extent that the drilling program will have to be curtailed, provided that in some instances operators are willing to use high-cost conversion and imported pipe.

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, Jr., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

7. Do you contemplate a further steel shortage as affecting oil well drilling in

To be returned by February 10, 1953

Name of company: Continental Oil Co.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: L. F. McCollum, president, making return, and Chas. A. Perlitz, Jr., will be present.

1. What do you consider ample stocks in the United States?

[Millions of barrels]

	May 1, 1953	Nov. 1, 1953
Crude	255–260	255–260
Gasoline	150–155	125–130
Kerosene	19–20	33–34
Distillate	50–55	120–125
Residual	38–40	48–50

2. Do you consider total stocks today too high, too low, or about right? Too high.

3. Does your company or any of its subsidiaries import crude or oil products? No. If so, please give your schedule of imports, crude and products, for 1953 (by gravities).

4. Have you sold oil abroad to others for importation into the United States? No. If so, how much per day is contemplated?

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? Yes.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise. Plus 4.1 percent.

7. Do you contemplate a further steel shortage as affecting oil well drilling in 1953? No.

Any comments on the general oil situation will be appreciated.

At the end of 1952, according to PAD, United States crude oil producing capacity was 7,200,000 barrels per day and refining capacity was 7,770,000 barrels per day. Reserve producing capacity was about 700,000 barrels per day and reserve capacity in refining was about 800,000 barrels per day. These margins are more than sufficient to meet anticipated increases in demand in 1953. There will, therefore, be a tendency to overproduce and consequently build up excessive stocks of crude and products.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, Jr., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of company: Gulf Oil Corp.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required. S. A. Swensrud, president, making return, and J. H. Russell, vice president, will be present.

1. What do you consider ample stocks in the United States?

[Barrels]

	May 1, 1953	Nov. 1, 1953
Crude	260,000,000	260,000,000
Gasoline	156,000,000	125,000,000
Middle distillate: Kerosene, light burning oils, diesel oils	65,000,000	150,000,000
Residual	40,000,000	55,000,000

While you have requested our opinion of adequate stock levels as of May 1 and November 1, it has been our observation that, on the average, gasoline stocks reach their high point about April 1 and that stocks of burning oils are at their lowest level at about this same date. We have, therefore, taken the liberty of indicating our estimate of ample product stocks as of both April 1 and May 1, together with the November 1 date.

Crude oil.—At the July 1952, meeting of the commission, Gulf suggested that a figure in the order of 260 million barrels constituted adequate stocks and we see no reason to change this at the present time.

Gasoline.—In our 1950 testimony before the commission we indicated our belief that stock figures of 100 million barrels on November 1, 1950, and 130 million barrels on April 1, 1951, would be adequate. Since then, new product pipelines have been built and new tankage added in various places and consumption is very substantially greater than it was in 1950. We would now be of the opinion that, on the basis of the expected 1953 level of demand, 125 million barrels on November 1, 1953, and 160 million barrels as of April 1, 1953, would be in order. Taking into account the drop in inventory that normally occurs during April (about 4 million barrels), adequate stocks as of May 1 would then be about 156 million barrels. These recommended stock figures are on the new basis of reporting to the Bureau of Mines which has added about 10 million barrels to the figures previously reported.

Middle distillates (kerosene, diesel oils and light burning oils).—Because of the interchangeable use of these fuels their stocks have been combined.

Our 1950 testimony was that stock figures of 110 million barrels as of November 1, 1950, and 50 million barrels as of April 1, 1951, were about right. Primarily, because of greatly increased sales and a greater spread between summer and winter demands (requiring more seasonal storage), it is our opinion that under present conditions stock figures on the new basis of reporting of approximately 150 million barrels as of November 1, 1953, and 60 million barrels as of April 1, 1953, would be more appropriate. Ample stocks as of May 1 would be about 65 million barrels based on the inventory accumulation that normally takes place during April. As with gasoline, the new Bureau of Mines basis has added about 10 million barrels to the figures previously published.

Residual fuels.—Since there has been little change in production or demand of residual fuels, we presently see no reason to change our previous testimony and stocks of 55 million barrels as of November 1, 1953, and 40 million barrels as of April 1, 1953, would be adequate. Ordinarily, residual stocks show very little change during April and we believe that inventory of 40 million barrels on April 1 also is ample for May 1, 1953.

2. Do you consider total stocks today too high, too low or about right? The comments given in reply to this question are based on the latest information reported by the Bureau of Mines for crude, and for products by the API.

While crude stocks are currently about 6,600,000 barrels higher than we feel is required, this is only about 2.5 percent over our estimate and we would not therefore necessarily regard them as particularly excessive.

With gasoline demand during 1953 generally estimated at about 5 percent over 1952, current stocks would appear to be at about, or a shade above, the proper level.

The inventory which might be regarded as most out of line, and therefore prove burdensome, is in middle distillates which is currently about 15,800,000 barrels or just under 18 percent above last year's level. Unless the weather during the next 60 days is substantially colder than during recent months, it may be necessary to reduce refinery runs and change yields in order to make heating oil tankage available for the normal accumulation of gasoline stocks, required to supplement summer production and meet demands during the season of heaviest gasoline consumption.

Residual stocks are much too high, being about 7,100,000 barrels above last year's inventory on the same date when stocks were generally considered ample. However, of this total accumulation only about 1,220,000 barrels is in the area east of California and therefore should not affect crude production in this area.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude and products, for 1953 (by gravities). While it is always difficult to forecast imports, we now estimate that they may total about 120,000 barrels per day during 1953, made up about as follows: About 9,000 barrels daily of 15° API gravity crude; 98,000 barrels daily of 31–32° API gravity crude; and 13,000 barrels daily of products, largely residual fuels, averaging about 15° API gravity.

It will be readily appreciated that the importation of heavy products, such as residual fuel, is the most difficult to forecast, as this is dependent on the level of demand.

4. Have you sold oil abroad to others for importation into the United States? Yes. If so, how much per day is contemplated? We have for many years sold foreign produced crude oil in varying quantities to other American companies; it is not anticipated that such sales, during 1953, will greatly exceed the volume so disposed of during the past several years.

We, of course, have no exact knowledge of the quantity of such foreign crude that has been imported into the United States by these purchasers. However, it is our understanding that only two of those who will purchase foreign crude from Gulf, during 1953, will import any of it into the United States. We further understand that these purchasers have received this same questionnaire and we assume that they will report their estimated 1953 imports in their reply to question No. 3.

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? Yes.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise. five or six percent.

7. Do you contemplate a further steel shortage as affecting oil well drilling in 1953? While there may be some shortage of tubular goods at this time, there appears to be no reason to expect that drilling activity will be affected to any appreciable extent throughout the year.

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, Jr., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of company: Humble Oil & Refining Co.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: J. A. Neath, vice president.

1. What do you consider ample stocks in the United States?

[Millions of barrels]

	Apr. 1, 1953	Oct. 1, 1953
Crude	260–274	260–274
Gasoline	157–167	122–133
Kerosene	17–18	34–37
Distillate	46–51	111–119
Residual	34–39	48–53

2. Do you consider total stocks today too high, too low, or about right. Present stocks appear to be adequate for crude oil, gasoline, and kerosene, but may be

high for distillate and residual fuel oil east of California unless the balance of the winter is much colder than last year.

3. Does your company or any of its subsidiaries import crude or oil products? No. If so, please give your schedule of imports, crude and products, for 1953 (by gravities).

4. Have you sold oil abroad to others for importation into the United States? No. If so, how much per day is contemplated?

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? Yes.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise: 4–5 percent increase.

7. Do you contemplate a further steel shortage as affecting oil well drilling in 1953? Not after the first 6 months.

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, JR., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of company: Magnolia Petroleum Co.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: J. L. Latimer, president.

1. What do you consider ample stocks in the United States?

	May 1, 1953	Nov. 1, 1953
Crude	See reply of Socony-Vacuum Oil Co., Inc.	
Gasoline		
Kerosene		
Distillate		
Residual		

2. Do you consider total stocks today too high, too low or about right? See reply of Socony-Vacuum Oil Co., Inc.

3. Does your company or any of its subsidiaries import crude or oil products? No. If so, please give your schedule of imports, crude and products, for 1953 (by gravities).

4. Have you sold oil abroad to others for importation into the United States? No. If so how much per day is contemplated?

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? We agree with the policy as expressed in the report of the National Petroleum Council dated January 13, 1949, entitled "A National Oil Policy for the United States."

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise: No study made. See reply of Socony-Vacuum.

7. Do you contemplate a further steel shortage as affecting oil-well drilling in 1953? A further steel shortage would affect oil-well drilling.

Any comments on the general oil situation will be appreciated: If no further steel shortage situation appears in balance if drilling is at approximately the 1952 rate.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, JR., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of Company: Phillips Petroleum Co.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: K. S. Adams, chairman.

1. What do you consider ample stocks in the United States?

[Barrels]

	May 1, 1953	Nov. 1, 1953
Crude	270,000,000	270,000,000
Gasoline	157,000,000	126,000,000
Kerosene	17,000,000	35,000,000
Distillate	52,000,000	124,000,000
Residual	38,000,000	50,000,000

2. Do you consider total stocks today too high, too low, or about right? Barring extremely cold weather for the next 3 months, total stocks on January 31 were approximately 20 million barrels greater than necessary.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude, and products, for 1953 (by gravities). Crude oil: 6,500 barrels per day (42° American Petroleum Institute gravity) during 1953. Products: None.

4. Have you sold oil abroad to others for importation into the United States? Yes. If so, how much per day is contemplated? 1,200 barrels per day of 32° American Petroleum Institute gravity crude during 1953.

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? Yes.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise. Approximately 5 percent.

7. Do you contemplate a further steel shortage as affecting oil-well drilling in 1953? Steel shortages will affect oil-well drilling to some extent in early 1953, but no difficulty is expected in the second half of the year.

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, JR., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of company: Shell Caribbean Petroleum Co.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: J. A. Walstrom, making return.

1. What do you consider ample stocks in the United States?

	May 1, 1953	Nov. 1, 1953
Crude		
Gasoline		
Kerosene		
Distillate		
Residual		

2. Do you consider total stocks today too high, too low, or about right?

3. Does your company or any of its subsidiaries import crude or oil products? If so, please give your schedule of imports, crude and products, for 1953 (by gravities). Crude: None. Products: None. However an associated company, Asiatic Petroleum Corp., imports 10,000 barrels per day fuel oil in bond only for its ships' bunkers customers.

4. Have you sold oil abroad to others for importation into the United States? Yes. If so, how much per day is contemplated? Crude: None (see below).

Products: For 1953 average 110,000 barrels per day residual fuel oil to independent distributors along the United States eastern seaboard.

(In answering question 4, we have not included limited quantities of crude and/or products sold to companies who are "principal oil purchasing companies in Texas" as we have checked with these importers and understand that these quantities will be reported by them.)

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? Yes.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? If so, please estimate what your study reflects percentagewise.

7. Do you contemplate a further steel shortage as affecting oil-well drilling in 1953?

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, JR., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of company: Shell Oil Co., 50 West 50th Street, New York 20, N. Y.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: D. B. Hodges, vice president.

1. What do you consider ample stocks in the United States?

[Barrels]

	May 1, 1953	Nov. 1, 1953
Crude	265,000,000	268,000,000
Gasoline	155,000,000	125,000,000
Kerosene	18,000,000	35,000,000
Distillate	52,000,000	125,000,000
Residual	40,000,000	55,000,000

2. Do you consider total stocks today too high, too low, or about right? Slightly high.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude and products, for 1953 (by gravities). Crude oil: None. Finished asphalt: 6,850 barrels per day. Bunker C. fuel oil (10°API gravity): 5,348 barrels per day.

4. Have you sold oil abroad to others for importation into the United States? No. If so, how much per day is contemplated?

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? Yes.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise. Four and five-tenths percent.

7. Do you contemplate a further steel shortage as affecting oil well drilling in 1953? No.

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, JR., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of company: Sinclair Oil Corp.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: H. L. Phillips, vice president.

1. What do you consider ample stocks in the United States?

[Millions of barrels]

	May 1, 1953	Nov. 1, 1953
Crude	270	275
Gasoline	148-152	124-128
Kerosene	16- 18	30- 32
Distillate	52- 56	110-116
Residual	36- 38	50- 54

2. Do you consider total stocks today too high, too low, or about right? Crude stocks are thought to be too low. The stocks of principal products are thought to be too high as of this date.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude and products, for 1953 (by gravities). No products are imported. Contemplated imports of crude amount to 68,000 barrels daily of the approximate average gravity of 32°–33°.

4. Have you sold oil abroad to others for importation into the United States? No. If so, how much per day is contemplated?

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? Yes.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise. Five percent.

7. Do you contemplate a further steel shortage as affecting oil well drilling in 1953? No.

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman,*
W. J. MURRAY, JR., *Commissioner,*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of company: Socony-Vacuum Oil Co., Inc.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: John Case, director and vice president.

1. What do you consider ample stocks in the United States?

[Barrels]

	May 1, 1953	Nov. 1, 1953
Crude	265,000,000	270,000,000
Gasoline	154,500,000	125,800,000
Kerosene	16,800,000	34,700,000
Distillate	50,800,000	125,500,000
Residual	38,100,000	50,300,000

2. Do you consider total stocks today too high, too low, or about right? East of California—products high about 7 million barrels, mostly gasoline. California short 4 millions of light products. Crude oil—slight bit high.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude and products, for 1953 (by gravities:

	Barrels per day
Crude above 25°-	90,800
Crude below 25°-	1,300
Crude above 25° (to replace exported cargoes)-	700
Bonded fuel oil above 25°-	1,000
Bonded fuel oil below 25°-	8,000

To make up supply shortages in California, we may have to import 3,000 to 5,000 barrels per day of crude in the last half of 1953.

4. Have you sold oil abroad to others for importation into the United States? Yes. If so, how much per day is contemplated? We have made sales of crude for delivery during 1953 on an f. o. b. Caribbean basis with ultimate destination subject to purchaser's determination. Any portion of sales in question which may have been or may be imported into the United States should be covered by other companies to whom you have sent questionnaires.

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? We fully subscribe to the report of the National Petroleum Council dated January 13, 1949, entitled "A National Oil Policy for the United States" which includes a statement on imports which we presume you allude to in your question but which we respectfully point out differs in language from the stated National Oil Policy Committee's report.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise? +4.9 percent.

7. Do you contemplate a further steel stortage as affecting oil well drilling in 1953? About in balance if drilling is about the same as 1952.

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, Jr., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of Company: Standard Oil Co. of California.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: T. S. Petersen, president, making return.

1. What do you consider ample stocks in the United States?

[Barrels]

	May 1, 1953	Nov. 1, 1953
Crude	260,000,000	260,000,000
Gasoline	150,000,000	125,000,000
Kerosene	19,000,000	34,000,000
Distillate	55,000,000	125,000,000
Residual	40,000,000	45,000,000

2. Do you consider total stocks today too high, too low, or about right? About right.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude and products, for 1953 (by gravities).

	East coast		West coast	
	Barrels per day	Gravity	Barrels per day	Gravity
1952:				
Arabian	38,000	35	13,000	35
Venezuela	5,000	32–54		
Borneo			4,000	38
Sumatra			7,000	35
Subtotal	43,000		24,000	
Special Venezuela asphalt crude	13,000			
Total	56,000		24,000	
1953 (estimated):				
Arabian	40,000	35	13,000	35
Venezuela	11,000	32–54		
Sumatra			27,000	35
Subtotal	51,000		40,000	
Special Venezuela asphalt crude	16,000			
Total	67,000		40,000	

4. Have you sold oil abroad to others for importation into the United States? Yes. If so, how much per day is contemplated? None other than that listed above which will be imported by this company or its subsidiaries or affiliates, except 5,800 barrels daily special asphalt crude.

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? Our company agrees that United States imports should only supplement United States production.

6. Do you expect an increase in United States demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise. 4 to 5 percent.

7. Do you contemplate a further steel shortage as affecting oil-well drilling in 1953? Oil country tubular goods still are under control, but by the third quarter we contemplate adequate supplies if controls are removed.

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman*,
W. J. MURRAY, JR., *Commissioner*,
OLIN CULBERSON, *Commissioner*.

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of company: Standard Oil Co. (Indiana).

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: F. O. Prior, executive vice president, making return, and R. O. Dietler, chairman of the board of Stanolind Oil Purchasing Co., will be present.

1. What do you consider ample stocks in the United States?

[Millions of barrels]

	May 1, 1953	Nov. 1, 1953
Crude	260	260
Gasoline	155	125
Kerosene	18	37
Distillate	53	120
Residual	38	50

2. Do you consider total stocks today too high, too low, or about right? Crude stocks are too high and product stocks are on the high side.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude and products, for 1953 (by gravities). Our subsidiary, Pan American Petroleum & Transport Co., plans to import approximately 13,000 barrels per day of crude ranging from 10 to 17° API and possibly as much as 35,000 barrels per day of Bunker C fuel oil which ranges from 10 to 14° API. These estimated imports for 1953 are slightly lower than actual imports in 1950.

4. Have you sold oil abroad to others for importation into the United States? No. If so, how much per day is contemplated?

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? Yes.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise. Five percent increase.

7. Do you contemplate a further steel shortage as affecting oil well drilling in 1953? We do not expect the steel situation to retard oil-well drilling to any great extent.

Any comments on the general oil situation will be appreciated. In our opinion, imports are now supplanting rather than supplementing domestic crude production and should be reduced.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, Jr., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of Company: Standard Oil Co. (New Jersey).

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required: F. W. Abrams, chairman of the Board, making return, and J. R. Suman and M. J. Rathbone will be present.

1. What do you consider ample stocks in the United States?

[Millions of barrels]

	May 1, 1953	Nov. 1, 1953
Crude	260-270	260-270
Gasoline	150-155	123-128
Kerosene	18- 20	35- 38
Distillate	50- 55	125-130
Residual	35- 37	49- 52

2. Do you consider total stocks today too high, too low or about right. Slightly high, particularly product stocks.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude and products, for 1953 (by gravities). Below is a schedule of estimated 1953 imports of crude and products with corresponding estimated API gravities. Product imports consist almost wholly of heavy fuel oil. All imports by our affiliates are, of course, subject to appreciable variation with changes in the supply and demand situation.

Estimated Standard Oil Co. (New Jersey) subsidiary and affiliated companies United States imports—year 1953

[Million barrels per day]

	First quarter	Second quarter	Third quarter	Fourth quarter	Year	Average degree API
Crude oil:						
Under 25°	47	60	66	58	58	18
25° and over	43	39	33	46	40	37
Total, crude oil	90	99	99	104	98	26
Products:						
Duty paid residual fuel	119	88	85	120	103	15
Bonded bunkers [1]	60	61	64	60	62	15
Total, products	179	149	149	180	165	15

[1] Includes small volume bonded diesel.

4. Have you sold oil abroad to others for importation into the United States? Yes. If so, how much per day is contemplated? Our affiliates contemplate selling abroad in 1953 approximately 85,000 barrels a day of crude oil to some 10 American companies who presumably will report such of that oil as is imported by them. These sales by our affiliates are not made "for importation into the United States" as the buyers have control upon delivery abroad. Also, our affiliates contemplate selling approximately 25,000 barrels per day of residual fuel oil, the importation of which is not made by us, but presumably will be reported by the buyer.

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? We adhere to the import policy stated by the National Petroleum Council in its 1949 report "A National Oil Policy for the United States."

6. Do you expect an increase in United States Domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise. five to six percent.

7. Do you contemplate a further steel shortage as affecting oil well drilling in 1953? It is understood that 46,000 wells are forecast for 1953. It is not expected that steel shortages should interfere seriously with this level of drilling and the situation should improve as the year progresses.

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman*,
W. J. MURRAY, JR., *Commissioner*,
OLIN CULBERSON, *Commissioner*.

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of Company: Sun Oil Co.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if any explanation should be required. Robert G. Dunlop, president, making return, and Robert G. Dunlop or John G. Pew will be present.

1. What do you consider ample stocks in the United States?

[Barrels]

	May 1, 1953	Nov. 1, 1953
Crude	265,000,000	275,000,000
Gasoline	150,000,000	125,000,000
Kerosene	20,000,000	35,000,000
Distillate	60,000,000	120,000,000
Residual	40,000,000	55,000,000

2. Do you consider total stocks today too high, too low, or about right? About right.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude and products, for 1953 (by gravities).

	Gravity	Barrels per day
	Degree	
Crude oil	26	1,575
Do	32	4,521
Do	35	2,260
Do	42	2,740
Total		11,096

Crude imports equal to 5 percent of estimated 1953 crude runs of 220,000 barrels per day.

4. Have you sold oil abroad to others for importation into the United States? No. If so, how much per day is contemplated?

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? Yes.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise: 3 percent to 5 percent.

7. Do you contemplate a further steel shortage as affecting oil-well drilling in 1953? A steel shortage affecting oil-well drilling in 1953 depends primarily upon factors without our control. Generally, however, it is our opinion that steel supplies should prove reasonably adequate.

Any comments on the general oil situation will be appreciated.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, JR., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

QUESTIONNAIRE OF THE TEXAS RAILROAD COMMISSION

To be returned by February 10, 1953

Name of company: The Texas Co.

Name and position or title of official making this return of questionnaire, and the name of some responsible official who will be present to explain your data if

any explanation should be required: J. S. Leach, president, making return, and G. R. Bryant, vice president, will be present.

1. What do you consider ample stocks in the United States?

[Barrels]

	May 1, 1953	Nov. 1, 1953
Crude	260,000,000	260,000,000
Gasoline	145,000,000	120,000,000
Kerosene	20,000,000	33,000,000
Distillate	45,000,000	120,000,000
Residual	35,000,000	45,000,000

2. Do you consider total stocks today too high, too low, or about right? It is our opinion that the total stock level today is slightly on the high side and both crude and product stocks contribute to the excess.

3. Does your company or any of its subsidiaries import crude or oil products? Yes. If so, please give your schedule of imports, crude and products, for 1953 (by gravities).

Crude and product imports

[Barrels per day]

	1953 estimated	1952
Crude imports:		
East coast:		
South American:		
Light 29–31.5°	15,000	17,819
Heavy 16°	2,500	2,263
Saudi Arabia 35°	33,000	29,544
Total east coast	50,500	49,626
West coast:		
Sumatra 35.5°	10,000	3,069
Saudi Arabia 35°	1,900	
Total west coast	11,900	3,069
Total crude imports	62,400	52,695
Product imports:		
Gasoline		1,085
Residual fuel	6,800	6,430
Total product imports	6,800	7,515
Total crude and product imports	69,200	60,210

4. Have you sold oil abroad to others for importation into the United States? No. If so, how much per day is contemplated?

5. Do you adhere to and sustain the expressed policy that oil imports should only supplement and not supplant United States domestic production? The Texas Co. agrees with and follows the principle that imports of crude oil should supplement and not supplant domestic production.

6. Do you expect an increase in United States domestic demand for petroleum in 1953? Yes. If so, please estimate what your study reflects percentagewise. We anticipate that 1953 domestic demand for crude petroleum and products will reflect a 4.3 percent increase over 1952.

7. Do you contemplate a further steel shortage as affecting oil-well drilling in 1953.

Any comments on the general oil situation will be appreciated. It is our guess that the steel shortage will interfere less with 1953 drilling operations than it did in 1952. Certain high strength alloy (N–80) casing and all grades integrated mill tubing may continue in short supply during most of 1953.

This is for our information on market demand for Texas crude oil as required by Texas conservation statutes.

RAILROAD COMMISSION OF TEXAS,
ERNEST O. THOMPSON, *Chairman.*
W. J. MURRAY, Jr., *Commissioner.*
OLIN CULBERSON, *Commissioner.*

Mr. HINSHAW. Are there any other witnesses?

Mr. Earl Foster, the executive secretary of the Interstate Oil Compact Commission of Oklahoma.

STATEMENT OF EARL FOSTER, EXECUTIVE SECRETARY, INTERSTATE OIL COMPACT COMMISSION OF OKLAHOMA, OKLAHOMA CITY, OKLA.

Mr. HINSHAW. Mr. Foster, you may proceed.

Mr. FOSTER. Mr. Chairman, pursuant to your request, I appear here on behalf of the Interstate Oil Compact Commission.

My name is Earl Foster. I live in Oklahoma City. I am executive secretary of the Interstate Oil Compact Commission in charge of the headquarters office. The address is box 3127 Capital Station.

By profession I am an attorney and have been practicing since 1913. I have been active in the affairs of the Interstate Oil Compact Commission since its organization in 1925; served as chairman of its legal committee from the time of its organization of that committee soon after the compact was created, until 1947. On December 1, 1944, I was elected as executive secretary and placed in charge of the headquarters office.

I have charge of the supervision of all of the activities of the compact, including the finances, under the direction of the commission, of course, its executive committee and its chairman.

The Interstate Oil Compact Commission is an agency created by the interstate oil compact to conserve oil and gas, which was executed by 6 States in 1935, and with the approval of Congress, and now consists of 22 regular member States, and 5 associate States.

The Governors of the 22 regular States constitute the Interstate Oil Compact Commission, but they appoint assistants or official representatives to act for them when unable to attend, and these assistants become official officers of the States.

The commission has an executive committee consisting of Governors or their official representatives from eight States.

This committee determines largely the policy and program of the compact, subject always to the approval of the commission in general session.

Might I say here that the word "executive committee" has nothing to do with executive as far as secret. It is purely a term of administration, as nothing is secret about the group.

The headquarters office is at Oklahoma City and consists of 7 employees, 2 other men, and myself, and usually 4 secretaries. As provided for in the compact to conserve oil and gas, the objects and purposes of the compact are to preserve oil and gas, prevent physical waste, and present means and methods of obtaining the ultimate production.

There is no power to issue rules and regulations. Its sole purpose is to assist the States in developing the best programs possible for the conservation of these great natural resources. All of the power is reserved to the States, and one of the principal purposes of the compact is to preserve that power in the States, and to assist each State in every way possible in fulfilling its responsibility.

The commission holds meetings three times a year, originally held quarterly. At these meetings reports of committees are received, and open forums are conducted. Outstanding State and governmental officials, as well as representatives from the oil industry, are invited to appear before the committee and discuss the many problems confronting the conservation.

During the open forum, any person in any position or occupation is inivited to express his position freely upon any matter and to present any matter for the consideration of the commission.

Right here might I say that that is one of the principal, if not the principal, activity of the compact. It is a big desire and always has been, to get the opinions of everybody, regardless of their position. The executive committee holds meetings at the call of the chairman at any time between general sessions where he deems it advisable. At the regular or executive meetings—and as I explained before, the executive meeting is an executive committee meeting; I mean, representatives of the Federal Government, including the President of the United States, the Congress, the Department of Justice, the Federal Power Commission, or any other department desiring to do so are now and have always been invited and urged and requested to attend as an official observer, who not only is welcome at the meetings, but is invited to participate, to make any suggestion desired, to make any recommendations for the consideration of the commission.

The associate member States are provided for in the bylaws. We now have five. They likewise have the privilege and are earnestly invited and requested to participate in all the proceedings of the commission.

These official representatives from the State possess all the powers, duties, and responsibilities as do the representatives from the Federal Government that are now imposed upon the commission, with the sole exception of the right to vote and hold office.

In compliance therewith, the Federal Power Commission and the Department of the Interior have always had official representatives at our meetings. I believe that is almost without exception. And these representatives have attended practically all of our meetings, have participated therein, have exercised all the privileges of any governor or other representative, with the sole exception as above mentioned—the right to vote and hold office.

I can think of no action that has ever been taken by the Interstate Oil Compact Commission that has not been approved by all of these Government officials present.

Right here, I want to state that I have the authority to officially advise this committee or any representative that it desires to send that we would be most pleased and delighted to have a representative of this commission attend any meeting, both of the executive committee and of the compact commission, and observe first hand exactly what the commission does.

I might say further that our next meeting is to be held in Billings, Mont., on the 31st of August and the 1st of September, and the meeting following that will be held in Oklahoma City on the 4th and 5th of December, and the meeting following that will be held in Savannah, Ga., I believe, on the 16th and 17th of May 1954.

I assure you that every governor would be most glad to have any members of this committee or any official representative that they wish to send.

The Interstate Oil Compact Commission does now and always has urgently requested Congress, the Department of the Interior, and the President of the United States to be official observers. We hope that other departments of this Government—the Attorney General especially—will also attend. And I might say in passing that I do not think there has ever been a meeting when a letter hasn't been directed to the Attorney General and to the other offices asking them particularly to attend.

A large part of the activities of the compact are conducted through standing committees. These standing committees at the present time consist of the engineering committee, the legal committee, the research and coordinating committee, the regulatory practices committee, the public lands committee, the secondary recovery and pressure maintenance advisory committee, the by laws and procedure committee, and a resolutions committee, which latter committee is appointed before each meeting, and also several other more or less minor or administrative committees.

These committees, as their names indicate, go into every phase of the oil and gas conservation program.

The engineering committee attempts to develop and discover the best engineering practices. The legal committee attempts to develop the best laws, to advise the commission on any legal problems, and to review court decisions and regulatory orders, interpreting them so that the commission and those in attendance on the regulatory bodies may be fully informed.

The regulatory practices committee makes a special study of rules and regulations that will be applicable in each State. The research and coordinating committee studies the activities of the different regulatory authorities in order to pick out the best for the information of the others. The public lands committee concerns itself largely with public land questions, while the secondary recovery and pressure maintenance advisory committee devotes itself largely to the means and methods of obtaining the greatest ultimate recovery by secondary recovery and pressure maintenance.

The information accumulated by these various committees between sessions and at general meetings, as well as all of the discussions and reports, addresses, and discussions at the general meeting, is coordinated, reported, and published by the headquarters office of the commission through its regular publications—the quarterly bulletins and compact comments as well as through hundreds of special publications covering the various subjects of conservation. This information is furnished to State and Federal officials desiring the same and to any citizen of the United States or anyone else, for that matter, whether he is a citizen or not, even people from foreign countries, regardless of position and occupation. All he needs to do is to express his interest. Something like 4,000 are already on our list, and we receive more every day.

All the information is furnished without cost to anyone requesting it. We have hundreds of libraries, high school students, college students, even grade students, from all over the United States, writing

to us for that information, as well as, of course, members of the industry, representatives of the petroleum industry.

The headquarters office attempts to answer numerous questions, to be of assistance to anyone, not only to the States but to anyone else, who is interested in conserving our great natural resources and preventing physical waste.

The finances of the commission are furnished entirely by voluntary contributions from the States. No contributions from companies, associations, or individuals are accepted. We carry no advertisements in our publications.

The commission is composed of duly qualified State officials, primarily the governors of the 22 States or their officially designated representatives. While the membership of the various committees is not entirely composed of State and Government officials, a large majority of the membership is so composed although representatives of the oil and gas industry are included in the membership of these committees. However, they are recommended by the governor of each State and are appointed by the chairman of the commission, who is always a governor, with the approval of the executive committee, which consists of eight governors; constituting them, in my humble opinion, legally State representatives and not representatives of the particular oil industry in which they are engaged.

All the recommendations of the commission are based solely on the premise that oil and gas should be conserved, that physical waste thereof should be prevented, and that the greatest ultimate recovery of oil should be obtained. This purpose is strictly followed in all actions of the commission, keeping in mind always that it is the duty and responsibility of the individual States, which right and responsibility should be protected but at the same time should be exercised in an official and proper manner in the interests of the people of the States. And that is what we attempted to do.

I have brought with me 2 or 3 pamphlets. As I say, we have literally hundreds.

One of them I would like to put into the record, entitled "Saving Your Oil," and they are quite voluminous, and I didn't bring enough with me, but I will send each member one, going into the various activities of the Interstate Oil Compact Commission on saving oil.

Another one is the 1953 Directory, so that this committee will be advised as to who constitutes the official family, including all the committees of the compact.

The next pamphlet is, A Summary of the Background, Organization, Purposes, and Functions of the Interstate Compact To Conserve Oil and Gas, which in the back thereof contains the compact itself, the bylaws adopted by the commission, and some other suggestions.

I also brought along a little pamphlet recently prepared for publication, which is not of much importance, containing the governors as they exist today.

The summary on Saving Your Oil is 2 or 3 years old.

Now, if I may be permitted—I hope I am not out of line—to recognize the statement of Congressman Heselton this morning, when he very properly and correctly read a statement of mine that was made before the Small Business Committee, and was contained in the report: I want to report that while his statement was correct—I have

seen it reported, referred to, several times, as it was in that report—I think I am not being unreasonable when I say that the statement doesn't correctly show my attitude. Whether my opinion is worth any thing or not is a different question. But I have seen it quoted many times, so I am a little particular about it.

It is true, as he read, that in that statement I stated in substance, "to prorate the market demand, of course, will affect price," and that is what was asked this morning.

Now, I am reading from the official report in which that appears. But I further state:

> When you go to saving anything or preventing its waste naturally it is going to affect price. It may affect it down. You asked me about the broad question of affecting price. Of course, it affects price. But if you are trying to say that the interstate oil compact, or if you are intimating that the interstate oil compact, has at any time, or the State of Oklahoma, with which I am more familiar, had for its principal purpose the affecting of price, then to my mind this is most erroneous.

That is the end of the quote.

Time was rather short. We were rather in a hurry. That was in answer to questions asked by Mr. Hadlick, who was conducting the investigation. But I have talked to him often. I know he understood the matter.

If I had been asked to express my opinion further, I would have said, of course, that temporarily, in my opinion, after observing it for years, it does, in lots of instances, have an effect upon price upward, but over the period of years. As General Thompson, I think, has said in substance in his testimony, and in my study of this matter for practically 40 years, I am thoroughly convinced, if the program of conservation had not been carried out by the States, the price of oil would have been much higher and the price of gasoline would have been a great deal higher.

So, in my opinion, whatever it may be worth fundamentally and over the years, I do not think there is any question but what a good conservation program, while it doesn't have for its purpose the fixing of the price of gas or the fixing of the price of oil, and we, as General Thompson said so often, don't think about it or pay any attention to it, since that has been brought into my testimony, that is my humble opinion.

I believe, gentlemen, that that covers everything I was asked specifically in the telegram, but I am certainly willing to answer any questions that I might.

The CHAIRMAN. You may feel free to add to your statement whatever you wish in the way of additional documents and reports, or material of any character that would be pertinent to the question.

Mr. FOSTER. Thank you.

(The pamphlets referred to are as follows:)

SAVING YOUR OIL—ACCOMPLISHMENTS IN OIL AND GAS CONSERVATION

Published by Interstate Oil Compact Commission, Box 3127, State Capitol, Oklahoma City 5, Okla.

SUMMARY

The Interstate Oil Compact Commission, an organization existing under the Constitaution of the United States and under the concurring authority of Congress and 20 sovereign States, presents a record of accomplishment of industrial history which is unparalleled.

The cooperation between the oil and gas producing States and the Interstate Oil Compact Commission has proved to be the most effective way, and indeed the only feasible way, of increasing the ultimate recovery of our inrreplaceable oil and gas resources. It is conservatively estimated that the States through their conservation programs have produced at least 5 billion barrels of oil that would never have been produced under the methods in use in the early days of the industry; and it is also conservatively estimated that at least 5 billion barrels of the Nation's 26 billion barrels of oil in reserve would not be available except for these conservation programs. Stated in another way, since the beginning of World War II, 40 percent of our oil production has been due to the conservation work of the compact States.

A recent national committee reported to the Secretary of the Interior that the Nation today has 1 million barrels of productible oil per day which is available in case of emergency over and above what is now being produced, and which can be produced without waste.

While these figures are necessarily estimates, they are based on information compiled by experts who have studied the petroleum industry over a period of years.

The basis upon which conservation depends, namely, control of reservoir energy, is a very simple process and easy to understand. This energy is gas in solution with oil, or gas in contact with oil, or large volumes of water under pressure that are in contact with oil, which move the oil so that it may be produced in maximum quantity from the well, and is readily controlled by regulating production. The former practice, without reservoir control, meant a mad scramble to be the first to drill wells and produce them to capacity, with the result that the field was soon gutted.

The factors necessary for a good conservation program may be briefly listed:

(1) An adequate conservation law in the producing State; this is essential.

(2) An administrative body understanding the necessity for a conservation program, with trained personnel, and with authority to enforce the program if the industry fails or neglacts to operate in the most efficient known manner.

(3) Cooperation by the industry in making the best engineering and scientific knowledge avaliable to all in an effort to obtain maximum production of oil and gas from each field.

(4) An understanding by the general public of the benefits of a good conservation program to both national security and to the individual citizen.

Looking to the future, the conservation of our oil and gas is necessary to prevent catastrophe, perhaps a conquest of our land by a foreign aggressor. Nothing will more likely provoke an attack by a foreign aggressor than for our Nation to become incapable of defense, as certainly will be the case if we become dependent upon foreign oil and if we abandon our conservation policies, which have given us and will give us oil and gas in abundance. An abundant supply of American oil and gas is just as necessary in times of peace.

While no doubt mistakes have been made, the results accomplished have been so valuable and so tremendous as to dwarf any and all possible criticism.

The problem of conservation is not primarily to save a few pennies today in the cost of petroleum products, but to so plan and work that for all time to come our Nation will be rendered secure and prosperous by an abundant supply of liquid fuel within the continental United States.

EARL FOSTER, *Executive Secretary.*

EXAMPLES OF CONSERVATION ACHIEVEMENTS OF THE STATES AS TOLD BY THEIR GOVERNORS

ALABAMA

By Gov. James E. Folsom

In 1945 Alabama enacted model laws for the conservation of her oil and gas resources. The laws are operated by a board of 3 members, serving staggered terms of 6 years each. Representatives of the industry and State government collaborated in the writing of the statutes, and we believe our laws are as good as any in the country.

In the Gilbertown field, so far our only commercial producer, production is limited to 200 barrels per well per day. Drilling units are 40 acres. Inasmuch as gas is not present in appreciable amount, conservation of that commodity is not needed. Some of the wells produce small amounts of salt water and

that is disposed of by injection into input wells, selected and approved by the oil and gas board. To date, the Hunt and Carter Oil Cos., operators in the Gilbertown field, have given every cooperation.

Secondary recovery has not yet become necesary in Alabama. When it does, we have ample authority to put it into effect.

Our greatest need is new discoveries.

ARKANSAS

By Gov. Sidney S. McMath

Much has been said in favor of the law passed in Arkansas in 1939, but one of the most important features of the law is the method of appointing commission members.

The commission is composed of 7 members appointed by the governor for staggered terms so that the terms of 2 members expire at the end of 2 years, 2 members at the end of 4 years, and 3 members at the end of 6 years, and thereafter each member served for 6 years. The law specifies that the members shall be more than 30 years of age, and the majority must be experienced in development, production, and transportation of crude oil. Several of the original members are still serving and most of the replacements have been due to death, joining the armed services, or moving outside the State. The commission has worked hard to educate the public in the benefits of unit operation, pressure maintenance and other matters which assist in effecting good conservation. Possibly in no other State is there the voluntary cooperation which exists between the operators, royalty owners, and commission that exists in Arkansas.

One of the direct results of the cooperation that exists between industry, landowners, and the commission is that more than 50 percent of the production from the fields of the State comes from fields with some form of pressure maintenance program in effect and there are three additional fields which are classed as uncontrolled but are now beginning secondary recovery programs. Two of these projects are fieldwide and one involves more than 4,000 acres.

The 54th General Assembly of the State of Arkansas passed act 302 authorizing the commission to have a survey made of all the pools in Arkansas to evaluate the possibilities for secondary recovery in each of the pools. Dr. Fancher, from the University of Texas, an eminent authority on secondary recovery, was retained to make the survey as directed by the commission. This work required 4 years and was a new milestone in the contributions a State could make to its people and the oil industry. In the oldfields records were very incomplete and a great deal of research was required. In two of the oilfields, Lisbon and Hillsboro, the survey was a basis for the secondary recovery projects now under way. It is estimated that these 2 projects alone should recover a minimum of 7 million barrels of oil that could not be recovered by primary methods, and perhaps in excess of 20 million additional barrels will be recovered.

The Schuler Jones Sand unit and the Midway Reynolds Lime pressure maintenance projects have been written up so many times as outstanding examples of the advantage of reservoir pressure maintenance that no attempt will be made to go into the details of their operation. It is estimated that the Midway project will recover 35 to 45 million barrels of oil which could not be recovered by primary methods and the Schuler Jones Sand has already produced a third more oil than it was originally estimated would be recovered by primary methods and it is now estimated the ultimate recovery will be 35 to 45 million barrels more than by primary methods. Perhaps as important as the additional reserves made available is the encouragement these fields have afforded operators to install pressure maintenance projects in other fields.

Fields, in which pressure maintenance or secondary recovery projects are now operating or being set up and the increased production it is stimated will be available because of these projects, are:

Recoverable oil through pressure maintenance and secondary recovery

[Millions of barrels]

	Minimum	Maximum
Midway	35	45
Schuler Jones Sand	35	45
Wesson Hogg Sand	24	30
Haynesville	7	7
McKamie-Patton	6	7
Lisbon	5	20
Hillsboro	0.5	2
Magnolia	0	40
Atlanta	5	8
Woodley	?	?
Total	117.5+	204

In his survy Dr. Fancher estimated a minimum of 210,940,000 and a maximum of 269,340,000 barrels of liquid hydrocarbons could be made available through the injection of water, gas, or a combination of the two for the purpose of maintaining pressure or for secondary recovery. Today Arkansas can anticipate that present projects will recover approximately 50 percent of the maximum figure.

It is significant that all of the projects now in operation or contemplated have been put in effect since the conservation law was passed but without any coercion on the part of the commission. It is also significant that those additional pools which offer an opportunity for substantial gains through secondary recovery are, with the exception of Fouke, Stephens Travis Peak, and Lewisville Kilpatrick, old fields which were developed before the conservation law was passed and which were exempt from the conservation law. The total additional reserves it is estimated could be recovered from these fields is a minimum of 60.5 million and a maximum of 128.4 million barrels, of which Fouke, Stephen Travis Peak, and Lewisville Kilpatrick Lime would acount for 21 million barrels of the maximum figure.

In summary, since a conservation law was passed, secondary recovery projects have been put in effect which will recover a quantity of oil equal to 4 to 7 times the present annual production of the State of Arkansas. A survey conducted under the auspices of the State has made information available to the public on secondary recovery possibilities on each of the pools in the State. Through the educational efforts of the commission the public has been made cognizant of the benefits of conservation and are, therefore, very receptive to unitization, thus facilitating the forming of units and cooperative projects.

COLORADO

By Gov. William Lee Knous

Colorado has two large producing oil pools, which on the whole have been operated under good conservation practice. The Colorado Gas Conservation Commission has kept watch on these two fields to see that they are being produced so as to best secure the greatest ultimate recovery.

The Rangely pool in northern Colorado has an estimated producible reserve of 310 million barrels. Production in this pool is owned by a few large operating companies, which naturally have endeavored to follow good conservation practice. The field has a very low permeability, that is, the ability for the oil to move through the sand is very slow, and until this time there has been no noticeable water drive. Proper production in this pool under the best conservation methods would mean a very great difference in ultimate recovery. It is estimated by competent engineers, familiar with the area, that under proper conservation practices the pool will yield an additional 150 million barrels, or approximately half of the total probable reserve. A large area of the pool is Government land, under the supervision of the United States Geological Survey.

The Wilson Creek pool in Colorado is all on Government-owned land. The companies operating the pool have formed a unit agreement, subject to the control of the United States Geological Survey. The recoverable reserve from this pool operated under the best conservation practices is estimated at 35 million barrels, 10 million barrels of which are due to proper control.

However, in order to attain the best results, Colorado should have a better conservation law. I supported a move for such a measure in the 1949 general assembly, but the proposed law failed to pass.

FLORIDA

By Gov. Fuller Warren

Oil production in Florida dates from 1943, when the Humble Oil & Refining Co. discovered the Sunniland field at Sunniland, Collier County, southern Florida. During the intervening years no other field has been discovered, even though considerable prospecting has been carried on throughout the State.

The Humble Oil & Refining Co. has made full use of its engineering skill in the development of this limestone field. The Florida State Board of Conservation has not exercised legal authority provided in its model law of 1945 to control oil and gas production. In the development of the Sunniland field this company has used modern methods and complied voluntarily with such rules and regulations as would have been enforced legally.

The Florida Oil and Gas Board is composed of the Governor, secretary of state, the State treasurer, the attorney general, superintendent of public instruction, the commissioner of agriculture, with the director of the geological survey serving as secretary. The Oil and Gas Board has issued rules and regulations that will take care of any contingencies that might arise.

ILLINOIS

By Gov. Adlai E. Stevenson

The Louden pool is an example of several pools in Illinois in which substantial amounts of additional oil are being recovered by the injection of surplus gas into the oil sands through imput wells regularly spaced in a special pattern. It is estimated that ultimate recovery of the Louden pool will be 193,500,000 barrels of oil, of which it is estimated that 12,600,000 barrels were due to the conservation program of well spacing and gas injection. Other pools in which gas is injected on a large scale include Salem, New Harmony, and Dale-Hoodville. No estimates of additional oil recovery by gas injection in these fields are available but it is probably of the same order of magnitude as in Louden.

Waterflooding for secondary recovery of oil in Illinois has been increasing at a greater rate in recent years than air or gas repressuring. There are now 32 fields in Illinois with active waterflooding operations. Cumulative oil production from these operations to July 1, 1949, is estimated at 13 million barrels. Of this amount, 11,600,000 barrels (or 90 percent) came from 3 areas, Patoka in Marion County, Clay City-Noble Consolidated (the "basin McClosky") and Siggins in Cumberland County, all of which have had waterflooding in operation for about 6 years. Waterflooding in the remaining 29 areas has been going on for a much shorter time, so there is an opportunity for substantial returns in the future.

INDIANA

By Gov. Henry F. Schricker

Indiana is probably one of the oldest oil- and gas-producing States. Before the turn of the century oil and gas were being produced from what is now known as the Old Trenton field, and it has been estimated that there were as many as 30,000 to 35,000 producing oil and gas wells in that field.

A few of the great names now recognized in the industry had their start as individuals in the Hoosier State. The production of oil and gas in this particular area brought in many other industries. Unfortunately, however, knowledge of petroleum conservation was limited and the production of oil and gas was exhausted. It is now recognized that a great amount of waste was committed. Fortunately, the other industries remained. The oilmen followed the new discoveries of oil and gas in the South and West, and it was not until the thirties that they returned to Indiana for exploraion and oil and gas developments. Immediately after the war it became evident that a great amount of activity was about to take place in this State. Our State government, recognizing this fact, passed its first oil and gas law in 1947, together with a petroleum severance tax to aid in defraying the cost of the new department and, likewise, the cost of State government. Almost all of the recent exploratory work has resulted in the

bringing in of oil wells, there being 46 out of the 92 counties having oil production, with 178,253 producing acres. The greatest amount of activity is in six counties located in the extreme southwestern part of the State.

At the present time Indiana has very little production of natural gas. Our division of State government, that regulates and controls the activities of the industry, have in mind a practical interpretation of our rules and regulations which tend to yield in their judgment the greatest ultimate recovery of oil and gas. Probably one of the best examples of conservation practice in Indiana was in regard to the Plainville pool discovery at Plainville, Ind. The greatest part of the known pool is directly under the town of approximately 700 or 800 population. If Indiana had not had a petroleum-conservation law regulating spacing and drilling units, no doubt there would have been a forest of derricks and well locations on the town lots. A hearing was held by the division of oil and gas and the conservation commission to establish spacing and drilling units and to set up a procedure for the development of the field. Instead of having a boomtown for a period and afterwards a ghost town, it is hoped that a much greater ultimate recovery of oil will be realized by the operators and landowners alike.

We in Indiana recognize that the petroleum industry is a very vital part of our modern-day living, and our State government will encourage exploratory activity, proper production methods, and the prevention of waste.

KANSAS

By Governor Frank Carlson

Practically all of the semiflush production in Kansas is being produced in western Kansas, and approximately 90 percent of this production is coming from the Arbuckle limestone. For this reason the production from the Arbuckle must be discussed as a whole rather than a few individual fields. The oil of the Arbuckle is very undersaturated, that is, it has very little gas in solution so that none of the production has a problem of gas conservation. However, in all of the production from the Arbuckle limestone, there is very effective water drive and it is necessary to produce each of the reservoirs so that the maximum benefit may be obtained from this water movement. Early in the life of the production, Kansas was operating upon an actual physical potential basis. However, it was found that by the taking of these physical potentials, the water generally underlying the oil was being caused to come toward the well bore trapping off the oil in behind. The Kansas Corporation Commission in an effort to stop this water coning by the high rate of production during the testing of the well for its ability to produce, issued rules and regulations to determine potentials on a calculated basis rather than to actually produce a well at a high rate of flow. This has reaped untold savings of oil within the Arbuckle Reservoirs, since it has stopped the coning previously encountered.

The Kansas Corporation Commission issues monthly orders fixing the amount each well will be allowed to produce so that production will be taken at a slow enough rate to allow the water to move up as the oil is produced, thereby maintaining reservoir pressures and securing a much greater ultimate recovery. It has been estimated that 50 percent more oil will be recovered from the wells producing from the Arbuckle Reservoirs in Kansas, under the corporation commission rules and orders, than would be recovered under the law of capture method.

A large portion of the tristate Hugoton gas field lies in Kansas. The Corporation Commission has issued basic rules and regulations for the production of gas from this pool. In conjunction with the Oklahoma Corporation Commission and the Texas Railroad Commission, the orders in all three States are similar so that there will be no low pressure areas formed at any portion of the pool and ratable taking will be maintained throughout the area so that each owner will get his proportionate share of the gas.

What is known in Kansas as the southeastern stripper area, discovered many years ago, through secondary recovery operations is now still producing 10,000 barrels of oil per day. It is very probable that, without these conservation practices, this area would have long ago been abandoned as being unable to produce. Another thing that is very interesting to know in Kansas is that the reserves for the State, as of January 1, 1942, were estimated at 700 million barrels. Since that time, the State has produced considerably more oil than was estimated to be recoverable at that time. The reserve as of January 1, 1949, was still

estimated at 650 million barrels. The thing that is interesting to know in this regard is that during this period of time there has not been what has been considered a major discovery. This means that the State, through its conservation practices and by the development of pools previously discovered, has practically as much reserve as it had in 1942 and has still produced more than 700 million barrels.

KENTUCKY

By Gov. Earle C. Clements

Kentucky is not a large producer of oil and gas. Our production consistently ranges from 8 to 10 million barrels per year. There is always a ready market for our oil and most of it is refined in Kentucky.

In spite of the fact that we have no adequate conservation laws, there is very little waste of either oil or gas. A very small amount of gas is flared which could be corrected by conservation laws providing for its return to the reservoir.

Few, if any, oil wells are produced beyond the maximum efficient rate and it can be said to the credit of the operators that little or no oil is wasted by the overproduction of wells. Most of our wells pass into the stripper class after a short period of flush production. It must be admitted, however, that if pressure-maintenance programs were put in operation in the early development stages of our oil pools, the ultimate production would be greater. Such procedure would mean that primary production would be one continuous operation making it unnecessary to instigate costly repressuring operations at a point when the production might be at a stage where it would be a questionable matter whether the additional cost required to produce more oil would be warranted.

The total production in Kentucky from 1883 to 1948, inclusive, has been more than a quarter of a billion barrels from scores of pools, many of which are now abandoned. Our problem now is the winning of as large a percentage of the three-quarters of a billion barrels of oil in these oilfields by using the best known methods of secondary recovery. This also means the best principles of conservation known at this time.

A conservation law that will aid every bona fide producer of oil and gas is needed in Kentucky.

LOUISIANA

By Gov. Earl Long

There are two pools in Louisiana that are examples of achievements when proper conservation methods are applied.

The Benton field in north Louisiana is an outstanding example of cooperative effort in unitizing a gas condensate pool. Engineering studies, conducted by both the operators and the State conservation department, show that, after the discovery of the pool, the recovery of liquid hydrocarbons would be much greater if the pool was operated as a unit and the gas produced reinjected to maintain the reservoir pressure so that the liquid would be produced and not left within the reservoir formation.

The people interested in the pool were so sure that the recovery would be greater by these operations that some of the wells were shut in for at least 2 years before they were produced, waiting for the construction of a cycling plant. This pool is an example of how both the royalty owner and the operator have changed their thinking regarding conservation methods. Ninety-nine percent of the royalty owners signed the original unitization agreement—only one person refused to sign.

The cycling plant that was built in this pool was designed to operate using a capacity of 50 million cubic feet of gas per day from which it is estimated that approximately 4,000 barrels of liquid will be abstracted. These liquids include butane, propane, gasoline and kerosene, gas in oil, and stabilized crude oil. The gas remaining, after this abstraction, is then injected into the producing sand to maintain the reservoir pressure and to drive the wet gas toward the producing wells. It is estimated this cycling program will be completed in 10 to 12 years. In that time all the recoverable liquids will have been produced and processed in the plant. The gas that had been reinjected will be available at that time to be produced and sold for heating purposes.

This pool is an ideal example of the operators, royalty owners, and the conservation department working together to obtain the maximum recovery under the best-known conservation methods. At all times the commissioner of conservation of the State of Louisiana was working with both the royalty owner

and operators and on December 9, 1947, issued orders unitizing the pools so that the greatest ultimate recovery would be obtained.

Testimony given at the hearing before the commissioner stated that 188 billion cubic feet of gas and 16,600,000 barrels of liquid were recovered from the reservoirs. A large part of these liquids would probably not be recovered in the absence of the pressure-maintenance program.

Another example in Louisiana is the West Tepetate pool. This field was the first dually pressure maintained field in the United States. In the field there are two oil and gas reservoirs and studies have indicated that recoverable oil had a value of $44½ million. However, the studies clearly indicated that this recoverable value could only be obtained under a pressure-maintenance program with both of the producing sands unitized.

After hearings, the Louisiana Department of Conservation issued an order unitizing these two pools so that pressure-maintenance operations could be carried on by the introduction of both gas and water into the producing formations. Due to the structural positions, that is, that one is above the other, several of the injections have been completed so that the gas and water injection in one well maintains the pressure in both reservoirs.

Before the hearing held by the Louisiana Conservation Department to unitize this pool the operator had much detailed recovery information and enough data on the benefits of pressure maintenance. This information was secured by many tests in the field and tests in the laboratories. But for unit-pressure maintenance, several million barrels of oil would not be recovered.

MICHIGAN

By Gov. G. Mennen Williams

Proration control of oil production in Michigan was established by legislation effective in May 1939. Statewide proration is not authorized by the statute, and control is, therefore, by individual fields. Proration has always been on a per well basis, fieldwide only. The statute provides for control of physical waste, either subsurface or surface, and, also, of market waste. The supply of Michigan crude has always been less than Michigan refinery capacity and market waste has never been an important factor in production control.

In preventing physical waste regulation of production has had the purpose of maintaining reservoir pressures as high as possible. This pressure control has had the effect of preventing uneven advances of edge or bottom hole water, and channeling or coning. An accompanying beneficial effect has been that of preventing or retarding escape of solution gas to form gas caps and unnecessarily high gas-oil ratios. In a great many fields, water drive has been so active that reservoir pressures have declined only slightly below original field pressures, and there has been no escape of solution gas.

The combined effect of preventing irregular bottom and edge water advance and of holding gas in solution in oil has been beneficial on many scores.

Early abandonment of structurally low edge or flank wells because of water coning has been avoided.

Percentages of brine produced to total oil to be ultimately recovered have been less than they would have been without this brine-advance control.

Percentages of that ultimate oil to be produced by flowing have, we believe, been increased.

Totals of economically recoverable oil will have been materially increased.

Early proration of new fields has been most important in preventing early dissipation of large volumes of gas, and, as a result, has made the building of natural gasoline plants economically profitable and attractive to operators. Residue that could not otherwise have been saved for fuel purposes has been made available for industrial consumers as both fuel and raw materials for chemical products. Before proration control, unrestricted flush production with high gas-oil ratios depleted the gas reserves and eliminated in most fields the practicability of gasoline plants.

Control of reservoir energy, so that coning and trapping of oil has been prevented and so that gas has stayed in solution in oil or its separation from oil kept at a low rate, has made possible wider spacing of wells in some fields, with a resulting substantial lowering of drilling cost per barrel of oil to be ultimately produced.

The general tendency is toward 20-acre spacing as compared with 10-acre prevailing before production control became the practice. While it may be that ultimate recovery of oil per acre will be somewhat smaller with wider spacing,

the evidence is that efficiency of both gas and water drive is so much improved under production control that recovery percentages will be very high. In efficient water drive fields the difference in recovery factors will be negligible.

During the 10 years of production control, 25 Michigan fields have been operated during their flowing lives under proration control. Currently, seven fields are being prorated. Close to 45 percent of the State production since 1939 has been from prorated fields, and, at any time, the percentage has not varied over 4 or 5 percent from this figure. Because all fields have been placed under control at very early stages of production, it is not possible to construct production curves or make other analyses of what reservoir performances might have been without control for comparison with actual performance under proration control. Neither does the State have for comparison two fields with similar reservoir characteristics, one of which has been operated with and one without control. It is impossible to precent exact data to show the benefits in barrels of oil recovered or to be recovered as a result of proration control. It is strongly felt that much oil will be produced which would otherwise have been lost through coning and premature abandonment.

MISSISSIPPI

By Gov. Fielding L. Wright

The State Oil and Gas Board of Mississippi has accomplished many things since it came into being in May of 1948.

The board has set up rules and regulations in regard to regular procedure before the board. These rules set out methods by which the operator may make requests, and the time is limited as to when he is to receive a reply or decision by the board. All answers to these requests shall be in writing within 30 days after the hearing.

The board has employed sufficient engineering personnel to establish allowables and restrict the wasteful production of gas, so that at the present time we can state that there is no gas being produced wastefully within the State of Mississippi. The board has also set up ratable takings for the protection of correlative and coequal rights of owners from the gas fields by making an adjustment at the end of the month, based on actual production within the field. This ratable raking is allotted back to the wells and is adjusted on a 6-month basis.

As rapidly as possible the board is passing special rules on old fields and new fields alike and is also setting up temporary allowables within these fields for a period of 90 days. For example, the Mallalieu field has a 200-barrel daily allowable; LaGrange, a 100-barrel daily allowable; Pine Ridge, a 125-barrel daily allowable; and South LaGrange, a 150-barrel daily allowable. A study of bottom-hole pressure and other engineering data will be gathered in an effort to find the maximum efficient rate of flow to be established in each well and in each field.

The State oil and gas board has set out Statewide rules and regulations in regard to drilling in the new and in the old fields.

MONTANA

By Gov. John W. Bonner

Cat Creek field.—The operators in this pool have for many years maintained an air-injection program in order to produce commercially many of the old wells that are low on the structure that would otherwise have been abandoned years ago. These are old wells, some of which are now producing only one barrel of high gravity oil per day.

If it had not been for this program, these wells would have been abandoned many years ago.

Cutbank field.—There are three projects in this pool where the operators are injecting gas in order to assist in maintaining a reservoir pressure. These programs result in maintaining production so that the wells may be commercially operated. In one project it is reported that an increase of a maximum of 11 percent of the oil produced was attained. In another project it has been reported that a maximum of 20 percent in the production was obtained from these injection programs. At this time there is a company laying gathering lines and building a treating plant to extract the natural gasoline and sulfur so that all of the gas produced with the oil shall be utilized.

Kevin-Sunburst field.—This is another older producing field in Montana and through remedial work, such as acidizing, production has been maintained at a daily average of from 4 to 5 barrels a day. Recently through the installation of

bottom-hole pumps, the operators have been able to handle a much larger amount of water. In one instance increased production by this method was from 2 barrels per day to 40 barrels per day. In another instance the operators through the use of these projects went into an area that was thought to be completely water laden and put large quantities of water and have wells now that are considered as good commercial producers.

NEW MEXICO

By Gov. Thomas J. Mabry

The Hobbs pool is located in Lea County, N. Mex., and was the first major oilfield to be discovered in the State of New Mexico. The field was discovered in June 1928, but because of lack of transportation and market facilities no more wells were drilled until January 1930, when a well capable of producing 7,275 barrels per day was completed 3 miles northwest of the discovery well. After completion of this well drilling was still slow for some time and it was not until the end of 1936 that the field was virtually completely drilled.

This field, after 21 years and having produced 123,585,363 barrels of oil, still has 90 percent of the 256 wells producing the maximum allowable and 206 wells are still flowing. Problems of conservation other than oil and gas were presented in the development of this pool. Large accumulations of fresh water were found approximately 60 feet deep. In addition to this it was found at least three other oil- and gas-producing sands were located at shallower depths from the well which started producing. A gas program was adopted in the drilling of the wells so that the fresh water and mineral deposits and the shallower production for mations would be protected for future development.

In 1929 the New Mexico Legislature enacted laws permitting cooperative agreements among the operators for the orderly development and production in oil and gas pools and permitted State lands to subscribe to such agreements. In 1930 the operators in the Hobbs pool met and filed an agreement to ratably prorate the market outlet for the pool. A formula was adopted for prorating the allowable and this formula has been in continuous effect since its adoption, although it was amended in some instances so that all of the wells in the pool have been producing ratably.

The operators in the pool, soon after its discovery, recognized the importance of conserving the gas energy as a means of maintaining bottom-hole pressure. Remedial work is done to lower the producing gas-oil ratio and a maximum gas-oil ratio allowable was fixed.

In spite of the fact that during the very early life of the pool large rates of production from a few of the wells dissipated some reservoir energy, it appears that due to conservation practices adopted soon after its discovery, a maximum recovery will be obtained.

By reason of these conservation practices, it now appears that most of the wells will approach depletion before they cease to flow naturally. This is shown by the fact that for the past 6 years the gas-oil ratios and bottom-hole pressures in the pool have remained practically constant.

The pressure history in the Hobbs pool is remarkable when it is considered that there has been no need for a program, since reservoir pressures have shown 3.12 pounds per million barrels produced.

NEW YORK

By Gov. Thomas E. Dewey

Due to the fact that the State of New York is one of the oldest of the producing States and there has been no new production in recent years, the State does not need such comprehensive conservation laws as the newer producing States. However, New York has passed laws that require the proper protection of wells so that producing fields may be protected, and has passed laws to permit the flooding of producing sands, which technique has become the mainstay of oil production in the State. This method of secondary recovery can be called conservation in the truest sense of the word. Millions of barrels of oil have been produced which previously had been considered unrecoverable, and millions of barrels more are expected to be brought to the surface from these "stripper wells" by this same technique. It is estimated that when the oilfields of New York State are finally depleted, the production of oil by secondary recovery will have more than tripled the primary recovery. In other words, oil which would

have been wasted because it remained in place, will have been recovered, and the volume of the "waste" oil will be at least three times that of the volume of oil originally produced.

OHIO

By Gov. Frank J. Lausche

Oil production in Ohio has represented an important segment of the State's economy for more than 60 years. The first oil well in Ohio was completed near Macksburg, Washington County, in 1860. From this year onward, production rose steadily until the peak of 23,941,169 barrels was reached in 1896. Since this time production has been on a gradually declining scale. In 1948 approximately 21,800 wells produced 3,906,000 barrels, bringing the total volume recovered in the years intervening since 1860 to approximately 615 million barrels. This yield has come from developments covering some 850,000 acres of land in more than 50 counties out of the 88 in the State.

Small independent operators have been responsible for the greater portion of Ohio's oil production over the years. Large numbers of courageous men, fired with the spirit of adventure and equipped more often than not, with only meager capital, have fought their way through the many discouragements and established for themselves economic independence by their efforts in the recovery of this natural resource. Ohio salutes these men as being truly representative of the spirit which has built this Nation and made it great.

Although our peak years of production are now many years in the past, the search for new pools and further exploration of those already existing, continues at a steady rate. For the past 10 years an average of 1,200 new wells have been drilled per year. In 1948 the total number of new wells drilled was 1,231 of which 376 were gas, 277 oil, 114 combination wells, and 464 were dry.

Because oil production in Ohio has been at a declining rate during the past 50 years and more, and also because of the fact that qualified geologists now tell us that by the use of proper methods an estimated 30 million barrels may be recovered from fields previously developed, Ohio is deeply interested in utilizing secondary recovery methods in order that the maximum amount of our reserves may be made available. An excellent example of what may be expected by the employment of such methods is the Chatham-Lodi area in Medina County where water pressure applied to old Berea sandstone fields has produced more oil in 10 years than was produced in the previous 19 years by primary methods.

In various Clinton sandstone fields in Perry and Hocking Counties, the introduction of low-pressure gas has kept wells producing which otherwise, in the opinion of authorities, would have been abandoned 15 years ago. Some 30 years ago by the use of low-pressure air on the Cow Run formation in various parts of Morgan County, oil production of about 80 percent of the primary yield was secured.

The use of such methods where thus far employed indicate that the continued application of these conservation practices will result in a substantial increase of our total production. Ohio along with other oil-producing States wants to do its part in assuring to the future generations their rightful share of this highly valuable natural resource.

OKLAHOMA

By Gov. Roy J. Turner

In Oklahoma there is one pool that, due to the way it was discovered, has had orders of nearly every type issued.

The West Cement Medrano pool in Caddo County was originally discovered by the drilling of a very large gas well. Subsequent development proved the field to be what was thought one of the larger gas reserves in Oklahoma. The Oklahoma Corporation Commission issued an order for the ratable production of gas between wells in the field, thinking at the time that the field was a dry gas field. However, several years after the discovery of gas, a well was drilled proving, what was originally thought to be a gas field, to be only a gas cap on an oil field.

At this time the Oklahoma Corporation Commission issued an order providing that the oil should be produced in a manner that would conserve the gas and reservoir energy and limit the wells producing gas only so that the production would be equivalent to the production of the oil wells. This type of order was estimated to have increased the ultimate recovery for the pool approximately 30 million barrels. After the pool was fully developed, as both a gas pool and an oil pool, the Oklahoma Corporation Commission, after extended hearings, is-

sued an order unitizing the Medrano field. After the issuance of this order the operators were able to entirely shut in the gas wells and to start erecting a plant so that all the gas produced with the oil wells would be reinjected into the gas-production area, thereby maintaining reservoir pressure. In addition to this, the wells near the gas cap area were shut in and the oil produced from the wells that could more efficiently produce it.

Testimony given before the corporation commission under oath was that by the unitization order alone the ultimate recovery from this field would be increased 60 million barrels.

There are two other pools in Oklahoma that virtually illustrate the accomplishments of oil and gas conservation in Oklahoma.

One pool that is often used as an example of proper operations is the South Burbank pool in Osage County. The reason that this pool is an ideal example of the benefits to be obtained by proper conservation methods is that at the time of its discovery it was only a short distance south of the North Burbank pool, a much older pool which was developed and produced before the States and the industry realized the benefit of maintaining reservoir pressure and conserving the reservoir energy.

At the time of its discovery, the South Burbank pool was thought to be an entirely different pool from the North Burbank, but, as the pool was developed, it was found that it actually joined the North Burbank pool and that all of the characteristics, such as sand thickness and original oil in place, were almost identical to the North Burbank pool.

The North Burbank pool was developed on a basis of 1 well to each 10 acres and was produced at as near capacity as was possible which was the custom at that time. However, when the South Burbank pool was discovered in 1935, the operating companies and the States realized the benefits of pressure maintenance so that all of the gas produced with the oil was reinjected to maintain as nearly as possible the original reservoir pressure.

The South Burbank pool was developed on a basis of 1 well to 20 acres and has at this time recovered more oil per acre, with 1 well to 20 acres, than the North Burbank pool has with 1 well to 10 acres.

The South Burbank pool is at this time practically depleted, having recovered a very high percentage of the original oil in place, whereas the North Burbank pool, not operating under the best conservation practices, has lost all of its reservoir energy without nearly recovering the recoverable oil.

Plans are now in progress to go into the North Burbank pool and replace the original reservoir energy with water, thereby recovering oil by secondary recovery methods that was recovered in the South Burbank pool by primary methods.

These pools, as an example, show clearly that by voluntary unit production under conservation control more oil is recovered in a much shorter time and at a much less cost to the operators than when the old rule of capture was practiced.

Through proper conservation practices both the royalty owners, the State, and the operator will gain.

Another pool in Oklahoma that has been produced long enough to show the benefits of conservation is the Billings Wilcox pool in Noble County. This pool was discovered in 136 and the operators almost immediately formed a voluntary unit. All of the gas produced with the oil was reinjected to the producing formation as well as all of the salt water produced with the oil.

In addition to the injection program, the operators were able by their unitization program to selectively choose the wells that would be produced so that the lowest gas-oil and water-oil ratio could be obtained. This pool has produced approximately 20 million barrels of oil as of the first of this year, and by the injection program the reservoir pressure is now 1,235 pounds as compared with an original pressure of 1,664 pounds.

The pool has produced now more oil than was originally estimated to be recoverable by both primary and secondary recovery methods and still has virtually the original reservoir pressure. Now that the pool is practically depleted, it is reliably estimated that this pool produced approximately 50 percent more oil under proper conservation methods than would have been produced by the rule of capture.

PENNSYLVANIA

By Gov. James H. Duff

The first oil well drilled in our country, the Drake well, was brought in near Titusville, Pa., in 1859. In the early oil-excitement days in our State nothing was known of the function of gas pressure in oil production. The gas was blown

and burned with no idea that the supply would soon be gone and most of the oil left in the sand with no energy to move it to the well holes. As most of the Pennsylvania fields were discovered and produced prior to 1900, this story of sudden boom and rapid decline was the almost universal history.

However, the sad results of this and other early mineral-industry operations were not without their lesson to the industrial and educational leaders of our State. Through the years our land-grant college, Pennsylvania State College, began to give aid and ideas to the mineral industries of the Commonwealth, as problems of production arose. In 1928 these industrial-aid activities were centered in a reorganized school unit, The School of Mineral Industries. The purpose of the new school was to help the people of Pennsylvania to obtain the most, in terms of good living, from their heritage of irreplaceable mineral resources.

Naturally, in a State with such great resources of coal, clay, and other nonmetallic minerals it was to be expected that the problems for the school would come from such industries. However, the first group to approach the school for help were Pennsylvania water-flood operators, groping for scientific improvement in their recently developed pressure-feed water-flood process. I cannot begin to detail, in a brief report, the benefits which have come to our Commonwealth, and in fact to the whole world, from this one activity of the School of Mineral Industries. The school has developed a petroleum engineering course, with special accent on secondary recovery, which has sent its graduates to every part of the world. The research activities of the school have brought forth new ideas which are frequently doubling or tripling to oil recovery from old-producing fields, and setting new goals of efficiency for primary operations. The school has set up extension courses, using textbooks of their own writing, to provide trained workers for the new industry. Last, and greatest, the work of the school has given a wholly new idea of the vastness of the oil content of our stripper producing fields waiting to be recovered by improved scientific methods.

The whole development of secondary recovery in Pennsylvania has been a story of pleasant cooperation between the Commonwealth and industry. Almost from the day that the producers began to realize their need of scientific improvement their financial efforts were aided by matching funds from the State for research at the college. On their part, the Bradford producers will repay the encouragement by producing 400 million barrels of high-grade oil from a field formerly thought to be ready for abandonment. Much greater than this, the joint effort of State and industry has presented to the world a new production method which will add many billions of barrels to our oil supply.

TENNESSEE

By Gov. Gordon Browning

In view of Tennessee's relatively small annual production of oil and gas, it rarely exceeds 20,000 barrels of oil and 300 million cubic feet of gas, the most outstanding accomplishments in the field of oil and gas conservation are forward-looking and precautionary in kind.

When a major discovery is made in Tennessee, the people of the State and the industry as a whole will find two accomplishments on record which are outstanding. In 1943, the general assembly enacted a modern oil and gas law to protect its holdings and those of its people. In 1947, Tennessee became a member of the Interstate Oil Compact Commission. This commission will be our mainstay in future practices of oil and gas conservation. As its name indicates, it is a commission whose members are appointed by the governors of the member States to conserve oil and gas in those States.

The above two pieces of legislation give adequate control at State level and will safeguard our rights from encroachment at Federal level when Tennessee becomes a significant producer of oil and gas.

TEXAS

By Gov. Allan Shivers

The outstanding recent activity of the Texas Railroad Commission is the positive action that the commissioners have taken in the matter of flare gas. By way of explanation flare gas is natural gas that is produced with oil. Very often, as was the case in Texas, facilities are not available to gather all of the gas when the wells are making their allowed oil.

Early in 1946 an engineering committee, appointed by the chairman of the commission, made a report on this flare-gas problem. Their report caused the commission to hold numerous hearings to determine what could be done to reduce the amount of flare gas.

After much testimony, over an extended period of time, the railroad commission issued orders in 17 pools which required the gas to either be utilized or the production in the pools be reduced to a point where the gas would be utilized. These orders were immediately attacked in the courts, however, the State supreme court ruled that the commission was acting within its delegated authority and that the orders were valid.

The results of these orders of the railroad commission were manifold. One thing they did was to stop the flaring of gas into the air that could be used for fuel. Another caused the operators to start putting the gas back into the formation in order to continue to produce their oil allowables. This not only conserved the gas to be used at a later time when facilities were available but most importantly maintains the reservoir pressure so that an increased recovery in oil will be possible.

East Texas field.—Very soon, to be exact, in September 1949, the east Texas oil field will be 19 years old.

No other oil field in the United States has ever attracted as much attention as has the east Texas field, and no field has ever been produced more carefully since 1933 than has the east Texas field, under the supervision of the railroad commission.

The field to date has produced 2,561,833,280 barrels up to June 1, 1949. This is the recorded measured production and accounted for by the railroad commission of Texas, which makes it one of the great fields of the world in oil already produced.

On January 1, 1943, the bottomhole pressure in the east Texas field was 1,015.71 pounds per square inch. Six and one-half years later, June 1, 1949, the bottomhole pressure of the east Texas field was 1,018.87 pounds per square inch. In other words, the field has been producing at an average rate of 352,000 barrels per day in 1943 and 368,000 barrels per day in the year 1944; 358,000 barrels per day in the year 1945; 330,000 barrels per day, each and every day, for the year 1946; 320,000 barrels per day in 1947; 305,000 barrels per day in 1948; and 231,000 barrels per day for the first 5 months of 1949.

All that oil has been produced and saved and yet, by the careful preservation of the bottomhole pressure, the east Texas field has gained 3 pounds in reservoir pressure. That is a conservation record not excelled anywhere.

In order to show the enormity of these figures, let me repeat them by years. In 1943 there was produced 128,568,647 barrels from the east Texas field. In 1944, 134,768,033 barrels; in 1945, 131,021,969 barrels; in 1946, 120,574,115 barrels; in 1947, 116,947,105 barrels; in 1948, 111,879,934 barrels, and for the first 5 months of 1949, there was produced 41,886,616 barrels, making a total from 1943 through 1949 of 785,646,419 barrels of oil produced with a net increase in bottomhole pressure since 1943 of 3 pounds.

Tabulation 1 given below gives all figures, but I took the pains to call them out, because they are so impressive to me, as I believe they will be to even a casual reader.

In the early days the east Texas oil field produced at very high rates of flow, and the pressure dropped very fast, but for the past 14 years, we have been conserving that pressure by making thorough tests each month, using the same 100 key wells throughout the field, and each month making the following month's production small enough so that the bottom-hole pressure did not drop unduly.

TABULATION I.—*10-year period pressure—Oil production relationship east Texas field*

Year	Oil production (RRC)	Barrels	Reservoir pressure (RRC)	Pounds per square inch	Oil produced per pound pressure drop (barrels)
1939	Total	141, 423, 317	Begin	1, 106. 78	
	Daily	387, 461	End	1, 061. 35	
			Drop	45. 43	3, 112, 994
1940	Total	139, 094, 581	Begin	1, 061. 35	
	Daily	380, 040	End	1, 051. 73	
			Drop	9. 62	14, 458, 890
1941	Total	130, 407, 594	Begin	1, 051. 73	
	Daily	357, 281	End	1, 025. 58	
			Drop	26. 15	4, 986, 905
1942	Total	120, 738, 216	Begin	1, 025. 58	
	Daily	330, 790	End	1, 015. 71	
			Drop	9. 87	12, 232, 840
1943	Total	128, 568, 647	Begin	1, 015. 71	
	Daily	352, 243	End	1, 012. 44	
			Drop	3. 27	39, 317, 620
1944	Total	134, 768, 033	Begin	1, 012. 44	
	Daily	368, 219	End	1, 001. 24	
			Drop	11. 20	12, 032, 859
1945	Total	131, 021, 967	Begin	1, 001. 24	
	Daily	358, 964	End	1, 016. 15	
			Increase	14. 91	(1)
1946	Total	120, 574, 115	Begin	1, 016. 15	
	Daily	330, 340	End	1, 016. 20	
			Increase	. 05	(1)
1947	Total	116, 947, 105	Begin	1, 016. 20	
	Daily	320, 403	End	1, 011. 39	
			Drop	4. 81	24, 313, 320
1948	Total	111, 879, 934	Begin	1, 011. 39	
	Daily	305, 683	End	1, 008. 39	
			Drop	2. 00	37, 293, 311
1949 [2]	Total	41, 886, 616	Begin	1, 008. 39	
	Daily	231, 418	End	1, 018. 87	
			Increase	10. 48	(1)
	Grand total	2, 561, 833, 280	Original	1, 620. 00	
			June 1, 1949	1, 018. 87	
			Drop	601. 13	4, 261, 696

[1] Increase.
[2] First 5 months.

As a matter of fact when there was a strong demand for oil like during the war days the east Texas field has been allowed to produce whatever it could produce without a bottom-hole pressure drop. If the pressure dropped, the allowable was reduced so as to preserve this bottom-hole pressure.

Along about 1942 salt water began intruding into the east Texas field and became quite a problem.

As the oil is removed, the water moves in and takes its place.

In 1942 the volume of water produced got to be so large that it was necessary to get rid of the water. There was talk of building a pipeline to the gulf to get rid of the salt water because it was polluting the Sabine River so much that

cities down the stream were objecting strenuously and the railroad commission was called upon to do something. This the commission did in granting permission to drill injection wells on the west side of the field where the salt water could be returned to the water stream on the side of water intrusion so as to maintain bottom-hole pressure and, at the same time, dispose of the salt water.

The companies were at first hesitant to drill these salt water injection wells, but with the assurance of the commission that they would be drilled under orders of the commission and with the protection of the commission, they went ahead, and it was found that water could be successfully injected into the water sands on the west side of the field.

This encouraged the industry and the commission to go further into the matter and under the auspices of the Texas Railroad Commission, the operators in the east Texas field were encouraged to form a salt water disposal and injection company.

Each owner of a well in the east Texas field was given an opportunity to buy a share of stock in the salt water injection company. The company upon organization promptly went into a study of where the water should be returned and, under the direction of the commission, went to work injecting water, starting in 1938, the injection of water into the woodbine starting with 1 well injection of 611 barrels average per day, and this process has grown until in 1948, there were 80 injection wells in the field, injecting daily 521,339 barrels of salt water, making a total water injection for the year 1948 of 190 million barrels.

This salt water injection has aided nature in maintaining the pressures of the east Texas field.

This has been done so successfully that the average cost before taxes per barrel of water injected into the east Texas field was 1.38 cents per barrel in 1948.

I attribute our success in maintaining the reservoir pressure in the east Texas field very largely to the efforts and the success of the salt water injection into the water-bearing sands to the west of the reservoir containing the oil in the east Texas field.

The struggle to control east Texas oil field production in order to conserve the pressure and thereby increase the production of oil was a long and difficult struggle in the beginning.

The Railroad Commission of Texas wrote orders limiting the production to around 450,000 barrels per day, which was the amount the experts said the field could produce without waste. These orders were uniformly attacked and systematically found invalid by the Federal courts. The courts felt that we were unduly limiting production.

It should be said, however, that the courts did not understand the theory upon which we were working. One judge said that the experts testified with such verisimilitude that it belied belief.

He also said that the commission had an evil eye on the forbidden thing, namely, price, and that our orders were leveled at market demand rather than the physical waste prevention.

It became clear that we were never going to be able to have an order sustained limiting the production of the east Texas field low enough to preserve the bottom-hole pressure. In other words, the pressure was dropping and had dropped from 1,600 pounds down to 1,200 pounds, and was dropping at the rate of 30 to 40 pounds per month.

As our orders were stricken down, production increased. The market was flooded with oil and the price of oil went down to 10 cents a barrel which, of course, paralyzed the entire oil-producing industry of the United States and was causing great physical waste in the east Texas oilfield.

The Legislature of Texas met in special session and recognized that oil produced in excess of market demand was waste and passed the market-demand statute, which said that production of oil in excess of transportation facilities or market demand was waste and instructed the railroad commission to limit production to that amount of oil that could be transported and marketed.

In other words, the legislature recognized that it was perfectly foolish and wasteful to produce more oil than could be sold.

Immediately thereafter the Railroad Commission of Texas posted orders limiting the east Texas field, along with other fields of the State, to that amount of oil that could be produced without waste and marketed.

The court promptly upheld our order for the first time, stating that now the legislature had seen fit to properly authorize and empower the commission to limit the production to market demand.

Since that date every oilfield in the State of Texas has come under the market-demand statute and the market demand from the oilfields of Texas is ratably divided among the various fields of the State and then the amount which is allocated to an oilfield is ratably prorated among the oil wells of that particular field.

This system of proration and waste prevention has proved highly successful, and has meant that by preserving the pressure in the reservoirs, hundreds of millions of barrels additional oil will be recovered from the oilfields of Texas.

The east Texas field has already produced 2,600 million barrels and the pressures are holding up wonderfully.

When the field was first outlined by dry holes around its 130,000 producing acres, the experts rather uniformly predicted that the field would produce in the nature of 2 billion barrels of oil total ultimate yield. They were figuring on old methods.

As I have already recited and shown, the field has already produced as much as the experts said would be the total ultimate recovery from that field.

Now it seems safe to predict that if the east Texas field is as carefully controlled in the future as it has been since 1942, the field should produce 2 billion barrels more of oil, and grandchildren of young people living in east Texas today can have oil production on their properties.

Of course, the yield will not be the same as the present daily rate of production, but certainly the east Texas field is not more than one-half done in years or in barrels of oil recovered.

Cedar Lake pool.—The Cedar Lake pool is located in Gaines County, Tex., approximately 32 miles south of Brownfield. This field is particularly interesting due to the fact that it is one of the first pools in which pressure maintenance was applied to a limestone reservoir.

The pool is also unusual in that there was very little gas produced in connection with the oil so that all wells were either completed as pumping wells or were put on the pump very soon after completion. It was found early in the life of the pool that due to the small amount of gas present that the reservoir pressures and the productivity of the wells were declining very rapidly due to the lack of any energy in the reservoir. Due to the fact that it was realized early by the operators and the engineers studying the pool that only a very small percentage of the original oil in place would be recovered. In fact it was estimated that there would be in excess of 90 percent of the original oil unrecoverable under primary operations. Due to this being one of the first limestone reservoirs where it was attempted to maintain reservoir pressure with gas, a number of tests were conducted to test the feasibility of this operation.

There was not enough gas present in the reservoir to reinject so it was necessary for the operators to go 18 miles away to a gasfield in order to have a sufficient supply of gas for their operations. Due to the distance, it was impossible to transfer the gas to the pool with sufficient pressure so that it was necessary to install compression plants. These operations were commenced in April 1946 and up until April 1, 1949, enough gas has been injected into the reservoir to fill a space equal to approximately 2,900,000 barrels of oil. The rate of injection of gas is maintained so as to balance reservoir withdrawals in the area and to maintain equal pressures across the field.

Since the injection program has begun, not only has the decline in reservoir pressures been retarded, but the pressure trend has exhibited an increase. It is still too early in the life of the injection program to completely evaluate the benefits from the program. However, the engineers in charge of the Cedar Lake pool have become completely satisfied that pressure maintenance in limestone reservoirs is feasible. Even though by the pressure maintenance program this pool is expected to recover a large amont of additional oil, the experiences are also valuable to the other limestone reservoirs in western Texas. They now have information from this pool that can be considered for pressure maintenance in other pools.

Lovell Lake field.—The Lovell Lake field is located 14 miles south of Beaumont in Jefferson County, Tex. There are 2 sands producing oil and 1 deeper sand producing gas in this field. The two oil-producing sands are completely separated by a shale body 40 feet thick.

Each of these sands has gas caps overlying most of the oil-producing area that provides the energy for the oil producing sands. The first gas was injected into the upper sand in December 1941, and gas injection was started in the lower sand in 1946. Both of these sands are such that gas-injection programs

are very satisfactory and in addition the upper producing sand is thought to have a strong water drive to assist in the pressure-maintenance program. It is estimated that the total amount of gas which will be injected into both sands will be 225,000,000,000 feet and that the pressure-maintenance program, in addition to saving this large amount of gas, will increase the ultimate recovery of oil by about 10 percent.

The Texas Railroad Commission has cooperated with the operators throughout the life of the project. Its original field rules were issued in August 1939, and they have been amended on four separate occasions to assist the pressure maintenance program.

WEST VIRGINIA

By Gov. Okey L. Patteson

Oil and gas production in West Virginia has now reached the stage where the reservoirs are approaching depletion.

Many of the rules and regulations that are necessary in the newer and larger oil- and gas-producing States are not necessary in West Virginia. However, the State has passed comprehensive rules to protect their remaining production. It is illegal in West Virginia to waste natural gas by burning in flares or to allow natural gas to escape in the air.

The State has also passed very comprehensive laws, rules, and regulations governing the drilling, casing, and producing of all wells drilled in the State. Average production from wells in West Virginia is less than one-half a barrel of oil per day and the average production from gas wells is less than 50,000 cubic feet per day.

For the past 4 years a State-financed research program has been in effect attempting to develop methods that will prolong the life of the State's oil and gas wells. This research program is true conservation if it will prolong the life of small wells such as are in West Virginia.

The older producing States are now paying the price for their sins of ignorance. During early days in the oil industry no one understood the mechanisms that produced the oil, nor the importance of conserving reservoir energy to increase recovery. Consequently but a small percentage of the oil in place was recovered. Tests made in some older fields show as little as 15 percent of the original oil removed; these pools are now in the "stripper" stage and approach abandonment.

The Interstate Oil Compact Commission and the States have long recognized the magnitude of these reserves. To recover secondary reserves compares with the work of the Soil Conservation Service. Everyone is familiar with its achievement in putting back into production worn-out and eroded farm lands; the reworking of our older and poorly operated oil pools is similar. A substitute for original reservoir energy must be injected into a formation in the same manner as exhausted top soils on farms must be rebuilt.

The injection of a new energy is secondary recovery. The compact commission has a division making detailed studies of each oil State for secondary recovery reserve possibilities. Estimates now made show that the reserves are greater than the total amount of oil already produced.

It is thought that in the future States with effective conservation laws will not have a secondary recovery problem. The way pools are now produced in these States makes a maximum use of reservoir energy and the oil formerly left in the reservoir by poor production practices by primary methods is now recovered.

Projects using secondary methods of recovery

State	Number of fields	Number of projects	Daily average	Increased recovery to date
			Barrels	*Barrels*
Arkansas	6	7	33,500	10,000,000
California	10	10		
Colorado	1	1	2,900	4,850,000
Illinois	18	128	8,500	10,500,000
Indiana	2	2	1,200	
Kansas	97	197	16,500	20,500,000
Kentucky	25	25	2,000	7,000,000
Louisiana	3	3		15,000,000
Montana	2	8	800	5,000,000
New Mexico	4	4	9,000	3,000,000
New York	4		10,000	100,000,000
Ohio	8	29	1,000	60,000
Oklahoma	62	100	37,000	130,000,000
Pennsylvania	9		32,000	230,000,000
Texas	110	265	27,000	30,000,000
West Virginia	37	44	1,200	1,000,000
Wyoming	7	15	14,000	50,000,000

A SUMMARY OF THE BACKGROUND, ORGANIZATION, PURPOSES, AND FUNCTIONS OF THE INTERSTATE COMPACT TO CONSERVE OIL AND GAS

A SUMMARY OF ITS ORGANIZATION, BACKGROUND, PURPOSES AND FUNCTIONS

Published and distributed by interstate oil compact commission, headquarters office, State capitol building, Oklahoma City, Okla.

1947 DIRECTORY OF THE COMMISSION

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FOREWARD

This handbook is published to provide, in convenient form, pertinent and concise information concerning the background, organization, functions, and purposes of the interstate compact to conserve oil and gas.

Growth and expansion of the Interstate Oil Compact Commission from an original membership of 6 States to present 20-State status is sketched briefly to acquaint those unfamiliar with the Commission with its accomplishments.

Governors, legislators, public officials of oil and gas-producing States, not now members of the compact, and others, may find this summary convenient and useful in considering the advisability of State membership. Text of the compact, bylaws of the commission, and suggested legislative acts by which a State may become a member will be found on pages 11, 12, and 16, respectively.

Copies of this pamphlet, of various committee reports, of conservation laws and engineering studies mentioned herein, and other additional information will be furnished promptly upon request.

EARL FOSTER,
Executive Secretary.

June 1947.

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AN INTRODUCTORY WORD

The success and accomplishments of the Interstate Oil Compact Commission clearly demonstrate the practicability of voluntary cooperation between the States in the solution of mutual problems.

Formed and existing for the sole purpose of conserving and protecting irreplaceable natural resources, the compact has grown and expanded without precedent in the Nation's history.

Now just 12 years old, this cooperative advisory body is without power of compulsion. Yet it has been aptly called "a bulwark against Federal control" and pointed out as "an example in self-rule." The expression of its objective—"The purpose of this compact is to conserve oil and gas by the prevention of physical waste thereof, from any cause"—has been referred to as "the most powerful 21 words in American industrial life today" and as "words which have changed the course of an industry."

The interstate compact to conserve oil and gas provides a forum for interstate cooperation to prevent avoidable waste of oil and gas, to further efficient practices in oil and gas production and to preserve to the States fundamental rights of local self-government.

PREORGANIZATION BACKGROUND

The interstate compact to conserve oil and gas was born of necessity. As early as 1924, recognition of a need for cooperative action was evidenced by formation of the Federal Oil Conservation Board under President Coolidge. During the

next 10 years, 2 bills providing for Federal control of the petroleum industry were introduced in Congress, namely, the Thomas-Disney bill and the Cole bill. In 1929, Interior Secretary Wilbur suggested formation of an interstate compact. In 1931, a flood of east Texas and Oklahoma City oil threatened the industry with complete demoralization. Lacking adequate control laws, Oklahoma and Texas Governors called out the State militia to enforce their shutdown orders.

On February 28, 1931, the Governors of Texas, New Mexico, Kansas, and Oklahoma met at Fort Worth on call of the Oklahoma Governor, agreeing upon appointment of a "governors committee," later known as the oil States advisory committee. During March and April, four meetings were held and on May 3 and 4 at a meeting in Austin, Tex., there was approved a tentative draft of a uniform legislative act for conservation and interstate compact. After further meetings, the act was presented to Congress but failed of passage. Throughout 1932, 1933, and 1934, many meetings were held and objectionable features of the earlier compact proposals were eliminated. After a conference with President Roosevelt early in 1933, Col. Ernest O. Thompson called a meeting in Washington of the governors of all of the oil-producing States for the purpose of forming a compact. Several attended. Reports were made to the President who evidenced his full approval. Passage of the National Industrial Recovery Act in June 1933, and adoption of the Code of Fair Competition for the Petroleum Industry temporarily shelved all activities looking toward formation of the compact.

In December 1934 a subcommittee of the House Interstate and Foreign Commerce Committee (known as the Cole committee because Congressman W. P. Cole, Jr., was its chairman), after extended hearings on the Cole bill, reported to the Congress:

"We strongly urge upon the oil-producing States the adoption of State compacts to deal with the problems of production of petroleum with which individual States are powerless to cope" and gave its opinion that:

"A State compact * * * is the solution of those problems of petroleum production which cannot be solved with modification of the 'law of capture' and other legislation operating within State boundaries."

Drafting of the Compact

After the 1934 general elections, newly elected governors took cognizance of mandates from their constituents to do something about the oil crisis. E. W. Marland, Governor-elect of Oklahoma, called a meeting at his home in Ponca City on December 3, 1934. Many States were represented, but no representative had the power to act. The second conference on January 3, 1935, was attended by representatives from California, Illinois, Kansas, New Mexico, Arkansas, Louisiana, Texas, and Oklahoma, and several trade associations. There was such a wide difference of opinion as to what the compact should contain that it appeared impossible to reach any plan of operation.

But the farsighted statesmen did not give up. Another meeting was held in Dallas, Tex., on February 16, 1935, with representatives from California, New Mexico, Oklahoma, Texas, Arkansas, Colorado, Illinois, Kansas, and Michigan present. There the differences were adjusted, a central theme of endeavor agreed upon, and the interstate compact to conserve oil and gas was drafted in its present form.

During the 1935 legislative sessions, the States of Colorado, Illinois, Kansas, New Mexico, Oklahoma, and Texas ratified the compact. Congressional approval was obtained by Public Resolution No. 64 on August 27, 1935, in accordance with requirements of article I, section 10, of the Constitution of the United States.

Organization meeting was held in Oklahoma City, September 12, 1935, at which time the Interstate Oil Compact Commission was formed to vitalize provisions of the compact. E. W. Marland became the first chairman.

By its terms, the compact was a 2-year agreement. It was extended 3 times for 2-year periods, and in 1943 and 1947 extended for 4 years.

Growth of the Compact

From an initial membership of 6 States, the compact has now grown to 20 (19 active and 1 associate member). Michigan joined in 1939; Arkansas, Louisiana, New York, and Pennsylvania in 1941; Kentucky in 1942; Ohio in 1943; Montana, West Virginia, Alabama, and Florida in 1945; and Tennessee and Indiana in 1947. Georgia became an associate member in 1946 after amendment of the bylaws to extend such privileges to States having no oil or gas production but excellent prospects thereof.

Although the compact permits any State to withdraw upon 60 days' notice, no State ever has exercised that right.

Purpose of the Compact

The aim of the sovereignties comprising the compact commission is expressed in definite terms in article II of the pact, which reveals that "the purpose of this compact is to conserve oil and gas by prevention of physical waste thereof from any cause."

Article VI of the compact sets forth that it is the duty of the commission "to make inquiry and ascertain from time to time such methods, practices, circumstances and conditions as may be disclosed for bringing about conservation and the prevention of physical waste of oil and gas" and report "its finding and recommendations to the several States for adoption or rejection."

Conservation of natural resources has become a fixed and well-established national policy. An enlightened public will no longer tolerate their wasteful use and destruction. Public welfare demands their proper utilization and development.

Petroleum is one of the most vital of these resources. The responsibility of producing it without waste rests upon the oil- and gas-producing States. The Interstate Oil Compact Commission, acting as an interstate advisory committee, furnishes facilities for the States, by cooperative action, to perform that obligation in the public interest.

How the Commission Works

The Interstate Oil Compact Commission, constituted under the Interstate Compact to Conserve Oil and Gas, is the administrative agency organized to carry out the functions of the compact. The commission consists of one representative from each member State. Under most of the State enabling statutes, the governor is named official representative with authority to appoint a substitute or assistant representative. In others, the governor is authoried to appoint and designate the official representative. One State designated the director of the State department of conservation as its representative.

The commission holds quarterly meetings to conduct studies of methods and practices for prevention of physical waste in oil and gas production and for discussion of questions directly or indirectly affecting oil and gas conservation. These metings are widely attended by State officials, industry representatives and other interested persons. A formal program and open forum discussions are features of the sessions.

Through the open forum there has been frank and free discussion and review of problems of the States and industry relating to conservation. Here the best thinking is available to all, even the smallest producer. Oustanding engineers, lawyers, economists, and technicians are brought to the commission's roundtable where the results of their private studies and experiments are presented for information and discussion of the entire petroleum and natural gas industry.

Proceedings of these meetings are published and distributed throughout the oil- and gas-producing States.

Committee Contributions

Standing and special committees are constantly conducting inquiries and making special studies which are presented at the commission's quarterly meetings. Often all committees work simultaneously on various aspects of a single important subject, such as reservoir control or secondary recovery. At other times, nonrelated subjects are selected, but always the reports are designed to bring to the commission full information on matters relating to oil and gas conservation. Committee members are selected from the best available legal, technical and engineering talent in the Nation.

The executive committee consists of representatives of seven compacting States, elected annually, who meet monthly for transaction of business and decisions on necessary policy matters. Any State representative present at an executive committee meeting becomes a member of the committee with all powers and duties of a regularly elected member.

The legal committee studies legal aspects of conservation. It has prepared a comprehensive suggested oil- and gas-conservation statute with alternative provisions which has been widely used by State officials in drafting or amending

conservation laws; has made a study of legal phases of repressuring and recycling; published a compilation of bylaws for field engineering committees; prepared a summary of State conservation laws, and a study of the relationship between Federal and State laws.

The research and coordinating committee, composed of technicians from regulatory bodies of member States, assembles and disseminates factual data showing results of applied conservation in the various States. It collects and exchanges information between the conservation bodies of the States, studies bottom-hole pressure, proration formulas, gas-oil ratio, and production histories of various oil and gas fields. Stripper-well surveys and secondary-recovery studies have also been conducted.

The engineering committee makes a study of conservation from a scientific and engineering standpoint. It prepared a compilation and summary of established engineering principles and sound conservation practices, and now is engaged in preparation of a book on oil- and gas-production methods. Leading petroleum engineers of the Nation comprise membership of this committee.

The regulatory practices committee is composed of men thoroughly schooled and trained in regulatory practices. Its comprehensive sets of rules and regulations and uniform reporting forms have been widely used by regulatory bodies of oil- and gas-producing States in promulgating their rules and regulations and reports. It is now engaged in revisions of the suggested rules and regulations to bring them in line with recently changed conditions in the industry.

The economics advisory committee, composed of topnotch petroleum economists of the Nation, keeps the commission constantly informed concerning changes in the statistical position of the industry, prepares forecasts of demand for crude oil and products, and at its suggestion, the commission is now engaged in making a survey of the Nation's crude and refined products stocks.

The public lands committee studies the complex problem of State and federally owned oil and gas lands. It took a leading part in obtaining revision of the Federal Leasing Act and liberalized regulations subsequently issued thereunder.

The interstate relations committee is charged with responsibility of stimulating cooperative activities of member States, spreading the gospel of conservation to nonmember States, enlisting additional States in the compact program, and carrying out certain educational programs and publications designed for public-relations purposes.

Advisory committees are appointed by many of the Nation's oil and gas associations as authorized under the bylaws. These committees keep their own organizations advised as to the program and activities of the compact commission and present to the commission suggestions and criticism concerning its work. In addition, the President of the United States, Congress, and Federal departments concerned with petroleum activities are invited to send representatives to any meeting with right of full participation except to vote and hold office. Nonmember States also are invited to send observers to the meetings, and many oil- and gas-producing States regularly send such representatives.

Headquarters and Publications

The commission maintains in Oklahoma City a headquarters office where its files, credentials, and records are kept and where its administrative work is carried on. The managing officer is the executive secretary. Individual staff members are specialists in various phases of the work, such as legal, engineering and public relations.

Regular commission publications include the Quarterly Bulletin, containing report of the quarterly meeting; Compact Comments, a monthly newsletter covering subjects related to conservation; and the Statistical Bulletin, published each month to keep the commission informed on petroleum economic conditions.

A handbook on conservation, Oil in Your Future, discusses in layman's language technical aspects of petroleum, pointing out the need for its conservation. Prepared for school and college use, the booklet has been extensively used in the commission's educational program.

A 30-minute sound and color motion picture, Oil for Tomorrow, produced by the commission in 1944, was shown to about 425,000 persons at 4,400 showings to December 1946. The film vividly portrays the story of America's oil, its production and use, and the necessity of conservation. The commission owns 20 prints which are available for free showing and are kept in constant circulation. Some 80 additional prints have been purchased by schools, State, and industry groups.

Hundreds of articles relating to technical or legal phases of oil and gas conservation have been prepared or encouraged by the commission and distributed. In addition, the commission has obtained publication of hundreds of articles in magazines, trade journals, and newspapers seeking to foster and strengthen the broad principles of conservation.

Finances

The commission's activities are financed by voluntary contributions of the various member States. No money is accepted from any individual, oil or gas company or agency. There is full cooperation between the industry and the commission, but its finances are absolutely controlled by the State governments. Under this voluntary system, the compact always has received sufficient sums to carry on any program the commission determined necessary or advisable.

Compact is Recognized

From every part of the Nation come commendatory statements concerning the accomplishments of the compact commission. Governors and other State officials show their approval by wholehearted cooperation. Industry and trade association executives recognize the commission as an effective means of expanding conservation principles. Federal officials congratulate the commission upon its far-reaching program.

Trade publications have been lavish in their praise. Hundreds of articles have pointed out the commission's accomplishments. To quote just one:

An editorial in the Petroleum Engineer, December 1946, said in part:

"Since its organization more than 11 years ago the Interstate Oil Compact Commission has rendered a valuable service to the oil and gas industry * * *.

"Despite the fact that it has neither the power nor the desire to impose its will on the States, the compact commission is perhaps the most potent agency today influencing and fostering sound conservation practices in the production of oil and gas. It provides an open forum whereby all State officials charged with the regulation of oil and gas production can study and discuss the common problem of conservation and attempt to aid in its solution by acknowledging and recommending procedures and practices that will lead to sound conservation and the prevention of physical waste of oil and gas. * * *

"The compact commission is in a position to enlist the cooperation of State officials, including its engineers, economists, and legal talent, and also industry leaders, in making studies and recommendations. * * * The reports are widely distributed and form the background for sound procedure and practice leading to maximum conservation of oil and gas."

How a State Can Join

Legislative authority to execute the compact is required. Such legislation may be either in the form of a bill or a joint resolution. The bill or resolution should authorize and direct the governor to execute the interstate compact to conserve oil and gas, and provide for a representative to serve on the commission. Suggested forms for legislative enabling acts will be found on pages 16 and 17 of this handbook.

An Invitation to Oil States

The commission appreciates the confidence it enjoys and the high esteem in which it is held. However, all credit for conservation achievements is due the individual States, cooperating with the industry, for they alone have the power and actually initiate and enforce conservation.

The compact commission has no power or desire to impose its will upon any State. The compact is predicated upon the premise that truth and enlightened public opinion are the only forces necessary to insure efficient and effective conservation by the States, and that the commission, by utilizing the combined experience and talent of the States and the industry, will be able to point the way.

Under the compact method, the individual States are trustees of their own natural resources. Thus the authority is placed where it can be best administered. Cooperating through the compact commission, the States are safeguarding that sacred trust.

A cordial invitation is extended to all oil- and gas-producing States to join in this cooperative endeavor.

APPENDIX

TEXT OF THE COMPACT

AN INTERSTATE COMPACT TO CONSERVE OIL AND GAS

Article I

This agreement may become effective within any compacting state at any time as prescribed by that state, and shall become effective within those states ratifying it whenever any three of the States of Texas, Oklahoma, California, Kansas and New Mexico have ratified and Congress has given its consent. Any oil producing state may become a party hereto as hereinafter provided.

Article II

The purpose of this Compact is to conserve oil and gas by the prevention of physical waste thereof from any cause.

Article III

Each state bound hereby agrees that within a reasonable time it will enact laws, or if laws have been enacted, then it agrees to continue the same in force, to accomplish within reasonable limits the prevention of:

(a) The operation of any oil well with an inefficient gas-oil ratio.

(b) The drowning with water of any stratum capable of producing oil or gas, or both oil and gas in paying quantities.

(c) The avoidable escape into the open air or the wasteful burning of gas from a natural gas well.

(d) The creation of unnecessary fire hazards.

(e) The drilling, equipping, locating, spacing or operating of a well or wells so as to bring about physical waste of oil or gas or loss in the ultimate recovery thereof.

(f) The inefficient, excessive or improper use of the reservoir energy in producing any well.

The enumeration of the foregoing subjects shall not limit the scope of the authority of any state.

Article IV

Each state bound hereby agrees that it will, within a reasonable time, enact statutes, or if such statutes have been enacted, then it will continue the same in force, providing in effect that oil produced in violation of its valid oil and/or gas conservation statutes or any valid rule, order or regulation promulgated thereunder, shall be denied access to commerce; and providing for stringent penalties for the waste of either oil or gas.

Article V

It is not the purpose of this Compact to authorize the states joining herein to limit the production of oil or gas for the purpose of stabilizing or fixing the price thereof, or create or perpetuate monopoly, or to promote regimentation, but is limited to the purpose of conserving oil and gas and preventing the avoidable waste thereof within reasonable limitations.

Article VI

Each state joining herein shall appoint one representative to a commission hereby constituted and designated as the Interstate Oil Compact Commission, the duty of which said Commission shall be to make inquiry and ascertain from time to time such methods, practices, circumstances and conditions as may be disclosed for bringing about conservation and the prevention of physical waste of oil and gas, and at such intervals as said Commission deems beneficial it shall report its finding and recommendations to the several states for adoption or rejection.

The Commission shall have power to recommend the coordination of the exercise of the police powers of the several states within their several jurisdictions to promote the maximum ultimate recovery from the petroleum reserves of said states, and to recommend measures for the maximum ultimate recovery of oil and

gas. Said Commission shall organize and adopt suitable rules and regulations for the conduct of its business.

No action shall be taken by the Commission except: (1) By the affirmative votes of the majority of the whole number of the compacting states, represented at any meeting, and (2) by a concurring vote of a majority in interest of the compacting states at said meeting, such interest to be determined as follows: Such vote of each state shall be in the decimal proportion fixed by the ratio of its daily average production during the preceding calendar half-year to the daily average production of the compacting states during said period.

Article VII

No state by joining herein shall become financially obligated to any other state, nor shall the breach of the terms hereof by any state subject such state to financial responsibility to the other states joining herein.

Article VIII

This Compact shall expire September 1, 1937.* But any state joining herein may, upon sixty (60) days notice, withdraw herefrom.

The representatives of the signatory states have signed this agreement in a single original which shall be deposited in the archives of the Department of State of the United States, and a duly certified copy shall be forwarded to the Governor of each of the signatory states.

This Compact shall become effective when ratified and approved as provided in Article I. Any oil producing state may become a party hereto by affixing its signature to a counterpart to be similarly deposited, certified and ratified.

Done in the City of Dallas, Texas, this sixteenth day of February 1935.

By-Laws of the Commission

In order to perform the functions and duties provided by the Interstate Compact to Conserve Oil and Gas, the following by-laws are adopted for the conduct of the business of the Commission.

Article I. The Commission

Section 1. The Commission shall be designated "The Interstate Oil Compact Commission" and will be referred to herein as "The Commission." The Interstate Compact to Conserve Oil and Gas will be referred to herein as "The Compact." The states which have ratified and executed the Compact, or which may hereafter ratify and execute the same, will be referred to as "the Compacting States."

Section 2. The Commission shall be composed of one representative from each compacting state, to be selected as the state may determine.

Section 3. The Commission shall be a fact finding and deliberative body and shall exercise the powers and perform the duties provided in the Compact. It shall conduct studies such as to ascertain methods, practices, and conditions for bringing about conservation and the prevention of physical waste of oil and gas and to promote wide acceptance and use of the best conservation practices. It shall, from time to time, report its findings and make recommendations to the several states for adoption or rejection.

Section 4. The Commission shall have an official seal, the same to be prescribed and determined by the Executive Committee. The Executive Secretary shall be the sole custodian of the seal. The Commission's official actions shall be taken in accordance with these bylaws and the Compact. The verity of such actions shall be established by the certificate of its Chairman, attested by its Executive Secretary, under the seal of the Commission.

Article II. Meetings

Section 1. Regular meetings of the Commission shall be held quarterly at such time and place as the Commission shall determine.

Section 2. Special meetings of the Commission may be called by the Chairman or by a majority of the Commission.

**Note—The states have successively extended the Compact with Congressional sanction.*

Section 3. Notice in writing by the Executive Secretary of the time and place of each regular meeting of the Commission shall be mailed to each member not later than ten (10) days prior to the date of the meeting. Notices of special meetings shall be given by the Executive Secretary as the Chairman shall direct.

Section 4. Notices of the time and place of any meeting of the Commission may be waived in writing or by telegram by its members.

Article III. Rules and Procedure

Section 1. The majority of the members of the Commission shall constitute a quorum at any meeting. Any number less than a quorum may adjourn the meeting from time to time.

Section 2. All actions taken by the Commission at any meeting shall be by the affirmative vote of the majority in number in number and interest of the Compacting States represented and present as provided by the Compact. The report of the Bureau of Mines shall be prima facie evidence of the daily average production of the Compacting States. The Commission may consider other evidence.

Section 3. Except as otherwise provided by the bylaws and the Compact, all meetings of the Commission shall be conducted in accordance with general parliamentary rules.

Section 4. Each compacting state shall deposit with the Executive Secretary of the Commission its official certificate and designation of its representative to whom notices of all meetings shall be given and to whom official communications shall be transmitted.

Article IV. Officers

Section 1. The officers of the Commission shall consist of a Chairman, First Vice-Chairman, Second Vice-Chairman, each of whom must be a member of the Commission, and an Executive Secretary and such other officers as the Commission may deem necessary, who shall not be required to be members of the Commission. The officers shall be elected by the Commission at the last meeting held in each year and shall hold office for a period of one year and until their successors are elected and have assumed office.

Section 2. The Executive Secretary and such other officers as may be created shall be elected by the Commission at the last regular meeting of the year, and shall hold office at the pleasure of the Commission or the Executive Committee, and need not be members of the Commission.

Section 3. The Chairman shall preside at all meetings, call and provide for notices of meetings, and otherwise perform the duties customarily performed by the chairman of a deliberative body. The First Vice-Chairman shall perform the duties of the Chairman in the absence of the Chairman, and the Second Vice-Chairman shall act in the absence of the First Vice-Chairman.

Section 4. The Executive Secretary shall make, or cause to be made, a record of the proceedings of the Commission and Executive Committee and shall preserve the same in the Headquarters Office. He shall give notices of meetings, and shall be responsible for carrying out the policy, orders, and directives of the Commission and of the Executive Committee, and shall make recommendations on program, policy, and activities of the Commission, and he shall have general supervision, under the direction of the Commission and Executive Committee, of all the Commission's programs and activities. He shall have immediate charge of the Headquarters Office and personnel.

Article V. Committees

Section 1. An Executive Committee, consisting of representatives from Compacting States, shall be elected at the last regular meeting of each year, immediately following the election of officers. The chairman of the Commission shall be a member of the Executive Committee and shall be its chairman. A majority of the committee shall constitute a quorum. The committee shall have such power and perform such duties in the conduct of the business of the Commission as the Commission shall from time to time by resolution provide. Any member of the Commission present at any Executive Committee meeting shall have the same power, authority, and responsibility as an elected committee member.

Section 2. A By-Laws Committee, consisting of three members of the Commission, shall be appointed by the Chairman of the Commission to study and make recommendations as to amendments of the by-laws.

Section 3. A Resolutions Committee shall be appointed by the Chairman of the Commission, consisting of members of the Commission, to serve at each regular meeting, at such time and as the Chairman may determine.

Section 4. The Chairman, with the consent and approval of the Commission or Executive Committee, shall appoint such other committees as may be deemed necessary to fully and effectively conduct the business of the Commission and carry out the purposes and functions of the Compact.

Section 5. All non-profit oil and gas associations organized for the purpose of advancing the interest of the oil and gas industry in the United States, or any section, state, or subdivision thereof, are invited to designate an advisory committee to the Commission, which shall be approved by the Commission or the Executive Committee. Said advisory committees shall be invited to participate in all proceedings of the Commission and enter into the discussions, but shall have no official vote.

Article VI. Headquarters Office

Section 1. A Headquarters Office shall be established by the Commission at such place as it may determine, in which the administrative work of the Commission shall be carried on, and in which the official files and records of the Commission shall be kept.

Section 2. There shall be kept in the Headquarters Office reports of all committees, together with legal, statistical, engineering, and other information that may be helpful in an oil and gas conservation program, the extent of such information to be determined by the Commission.

Section 3. All records in the Headquarters Office shall be open to the public at all reasonable hours.

Article VII. Finances

Section 1. The expense of this Commission shall be paid from voluntary contributions made by oil or gas producing states, in the manner and to the extent they may provide.

Section 2. The Executive Committee shall prepare and submit to the Commission each year an estimate of the expense of the Commission for the coming year.

Article VIII. Federal Representation

Section 1. The President of the United States, the Congress, and any Federal agency charged with responsibility concerning oil and gas, are invited to designate one or more representatives of the Federal Government to attend and participate in the meetings of the Commission. Such representatives shall be privileged to be present at all open and executive sessions, and to participate in the deliberation and studies of the Commission, and to make recommendations concerning the policies, program, and work of the Commission, but shall have no vote.

Article IX. Membership

Section 1. Any oil or gas producing state is entitled to become a regular member of the Commission by executing the Compact in the manner provided therein.

Section 2. There is hereby established associate membership in the Commission. Any state having prospects for oil or gas production may become an associate member in the following manner: Any such state may make an application to the Commission in writing, signed by the Governor of the State or by the agency in charge of the regulation of oil and gas, with the approval of the Governor. Said application shall state in substance that the State has prospects for oil and gas and is vitally interested in the program of the Interstate Compact to Conserve Oil and Gas, and desires to participate in the Commission's activities, to which application there shall be attached a copy of the Interstate Compact to Conserve Oil and Gas. Said application shall be presented at regular meeting of the Commission, and such State may be admitted to associate membership by a resolution which must have the affirmative vote of all member States present at such meeting. An associate member State shall not have the right to vote or hold office, but shall be entitled to all other privileges and benefits of regular membership. It shall be permitted to participate in all Commission meetings, committee meetings, and other activities of the Compact, but shall assume no responsibilities except those which the State voluntarily assumes, and may withdraw as an associate member at any time by filing written notice thereof, signed by the Governor or by the regulatory authority having charge of its oil and gas affairs, with the approval of the Governor.

Article X. Amendment to By-Laws

Section 1. These by-laws may be altered and amended at any regular meeting upon affirmative vote of the Commission, as herein provided.

ENABLING STATUTES

Legislative authority to execute the Compact by the various member States has been either by bill or resolution authorizing and directing the Governor to execute the same and providing for a representative to serve on the Commission. In most States the Governor is named as the official representative with authority to name an assistant representative to serve or act for him. In others the Governor is authorized to appoint and designate the official representative of the State. Copies of the bills and resolutions of the various States will be furnished by the Headquarters Office upon request.

Most of the States use a form substantially like one of the following:

A BILL

(Title as required by law)
(Enacting clause)

Section 1. The Governor of the State of _____ is hereby authorized and directed, for and in the name of the State of _____, to join with other States in the Interstate Compact to Conserve Oil and Gas, which was heretofore executed in the City of Dallas, Texas, on the 16th day of February, 1935, and now deposited with the Department of State of the United States, and which has been extended with the consent of Congress to September 1, 1947.

Section 2. The Interstate Compact to Conserve Oil and Gas referred to in the above section, and which it is proposed to enter, reads, as follows:

NOTE: Copy here the text of the compact as set forth on pages 11 and 12 herein.

Section 3. The Governor of _____ is further authorized and empowered, for and in the name of the State of _____, to execute agreements for the further extension of the expiration of the said Interstate Compact to Conserve Oil and Gas, and to determine if and when it shall be for the best interest of the State of _____ to withdraw from said Compact upon sixty days' notice as provided by its terms. In the event he shall determine that the State should withdraw from said Compact he shall have full power and authority to give necesary notice and to take any and all steps necessary and proper to effect the withdrawal of the State of _____ from said Compact.

Section 4. The Governor shall be the official representative of the State of _____ on "The Interstate Oil Compact Commission," provided for in the Compact to Conserve Oil and Gas, and shall exercise and perform for the State of _____ all the powers and duties as a member of "The Interstate Oil Compact Commission"; provided that he shall have the authority to appoint an assistant representative who shall act in his stead as the official representative of the State of _____ as a member of said Commission. Said assistant representative shall take the oath of office prescribed by the Constitution which shall be filed with the Secretary of State.

Section 5. (Emergency clause.)

HOUSE CONCURRENT RESOLUTION

A concurrent resolution authorizing the Governor to make the State of _____ a party to the Interstate Oil Compact Commission

Be it resolved by the House of Representatives, the Senate concurring therein, That the Governor of the State of _____ is hereby authorized and directed, for and in the name of the State of _____, to join with other States in the Interstate Compact to Conserve Oil and Gas, which was heretofore executed in the City of Dallas, Texas, on the 16th day of February, 1935, and is now deposited with the Department of State of the United States, and which has been extended with the consent of Congress to September 1, 1947.

(*Note: Text of compact may be inserted here, if desired.*)

Be it further resolved, That the Governor of _____ is further authorized and empowered, for and in the name of the State of _____, to execute agreements for the further extension of the expiration

date of the said Interstate Oil Compact to Conserve Oil and Gas, and to determine if and when it shall be for the best interest of the State of _____ to withdraw from said Compact upon sixty days' notice as provided by its terms. In the event he shall determine that the State should withdraw from said Compact he shall have full power and authority to give necessary notice and to take any and all steps necessary and proper to effect the withdrawal of the State of _____ from said Compact.

Be it further resolved, That the Governor shall be the official representative of the State of _____ on the Interstate Oil Compact Commission, provided for in the Compact to Conserve Oil and Gas, and shall exercise and perform for the State of _____ all the powers and duties as a member of the Interstate Oil Compact Commission; provided that he shall have the authority to appoint an assistant representative who shall act in his stead as the official representative of the State of _____ as a member of said Commission.

Adopted on this _____ day of _____, 194_____.

Speaker of the House of Representatives.
President pro tempore of the Senate.

THE INTERSTATE OIL COMPACT COMMISSION—DEDICATED TO THE CONSERVATION OF OIL AND GAS

The Interstate Oil Compact Commission is an association of States that are dedicated to conserving their oil and gas resources.

These States believe that they are better able to administrate their conservation programs than any other agency.

The membership of the Interstate Oil Compact Commission is made up of the governors of the member States or an official representative appointed by the governor.

The Interstate Oil Compact Commission has been called the most powerful powerless organization in existence. Its only power is the power of education, recommendation, and persuasion.

The commission holds quarterly meetings where outstanding men in the oil and gas industry are brought together with the State regulatory officials and all viewpoints exchanged.

A large part of the work of the commission is done by its standing committees. Here the finest attorneys, engineers, and experts in oil and gas production are brought together. Recommendations are made either for the States or the industry to accept or refuse as they see fit.

The Interstate Oil Compact Commission has been defined as democracy truly at work.

EDWARD F. ARN,
Governor of Kansas,
Chairman of the Interstate Oil Compact Commission.
EARL FOSTER,
Executive Secretary of the
Interstate Oil Compact Commission.

Headquarters Office, Post Office Box 3127, Capitol Station, Oklahoma City 5, Okla.

MAY 1, 1953

The CHAIRMAN. Are there any questions?

Mr. HINSHAW. I had a few.

I take it, Mr. Foster, that it is your belief that if there were no conservation practices, no agreements to conserve on the part of the State officials, there would be an immediate pressure to sell oil, to get oil out of the ground and sell it, much waste of oil would go on in the meantime, and the net result would be less total oil, and then at the end a higher price than through conservation practices.

Mr. FOSTER. That is my opinion; yes, sir.

Mr. HINSHAW. That is all, Mr. Chairman.

Mr. FOSTER. I happen to have been interested since 1913. I think that the history backs it up. We had a real high price of oil in the early twenties, and it went down, and then in 1926 and 1927, gasoline was up again. And it has been up and down, up and down. But, on the whole, it was very, very high, especially in 1926. In 1931, when we had a lot of oil, and it was running down the creeks, being dissipated, gas went down very low, of course, as low as, as I mentioned here, 10 cents a barrell. But, in my opinion, it couldn't possibly have stayed there. Before long, all the resources of the State of Oklahoma and other States would have been dissipated, and gasoline would have gone back to no telling what price.

Of course, there is no way of proving that, except from my observation, but I think it is supported by the history of the oil industry.

The CHAIRMAN. Mr. Heselton?

Mr. HESELTON. Mr. Foster, do you agree that the crude oil market is a regulated one, as a result of the production restrictions of the State commissions?

Mr. FOSTER. If I understand your question, Congressman, as to what you mean by a regulated market, no. The market is not regulated. The State officials in Oklahoma, since 1915, have done their best to limit the production of oil to whatever the market was. But to make any attempt to regulate what the market is—they have tried to encourage a big market at all times, so far as I know.

Mr. HESELTON. My point was definitely that the crude oil market is a regulated one.

Mr. FOSTER. The crude oil market is a regulated one?

Mr. HESELTON. Yes.

Mr. FOSTER. Well, I may not understand you, but if I understand you I would say "No, it is not."

Mr. HESELTON. You heard me read briefly from an editorial in today's New York Journal of Commerce; did you not?

Mr. FOSTER. I was sitting back there. I heard part of it, Congressman. I didn't get the whole effect of it.

Mr. HESELTON. Let me read from that, then.

If it were frankly admitted that (1) the crude oil market is a regulated one as a result of the production restrictions of the State conservation commissions, (2) crude oil regulation is vital to the national interest (as indeed the courts have repeatedly ruled), and (3) full and prompt replacement of reserves produced can proceed only with proper economy incentives—then it becomes clear that the elements of costs are much more of a determining factor in setting the price for crude oil than is the case with other commodities traded in completely free markets.

Now, I did not mean to take the clause out of context. I want you to know what I was reading. But, specifically, the thing I was interested in was your own reaction to the statement that—

the crude oil market is a regulated one as a result of the production restrictions of the State conservation commissions.

Mr. FOSTER. I don't think it is, sir. What the man may have meant, and what you may mean, that the production is regulated so as to in some of the States—now, as I happen to be up here representing all the States, I want the committee to understand that there are only about 4 States, or 5, I believe, that have market demand statutes. Texas, Oklahoma, Kansas, Louisiana, and New Mexico, I believe, are

the only States that have market demand statutes and the only ones I know of that attempt to limit the market demand.

But assuming that all production is limited to market demand, which is the principal one in Oklahoma and Texas and Kansas, then I would say that there is no regulation of market, as I understand that term.

The States simply tried to regulate the production so as to meet whatever the market is.

Mr. HESELTON. But there is no effort on the part of the State agencies to regulate production so that there will be a surplus available to the consumer?

Mr. FOSTER. Yes, sir; I think so. I think there is always a sufficient surplus, as General Thompson so aptly pointed out, so far as my experience has gone. There may be a few exceptions, but as a usual thing, there is an ample surplus to take care of all demands.

Now, we have had, as was called to attention, a few local conditions, where all the market wasn't filled. That was largely, I think, due to transportation. But as a usual thing, answering that question generally, I don't think any State that I have any knowledge of has ever limited the production of oil, so that there was ample oil for anyone who wanted to purchase it. And not only that but they did everything in their power—I was with the commission for 10 years in Oklahoma, as I stated—they did everything in their power to encourage people to buy it.

Mr. HESELTON. But, Mr. Foster, my question is as to whether there are statutes actually aimed at any percentage, whether it is 2, 5, or 10 percent, in fixing their allowance.

Mr. FOSTER. All I could speak for, and that would not be as secretary of the compact commission, but I did represent the commission of Oklahoma, and during the 10 years that I was there, I don't remember any particular percent, but it was always the idea in our conferences, in fixing the allowable, to be sure and have it enough so that there would be ample oil for anyone that needed it or would buy it.

Mr. HESELTON. Is it not true that you are taking into consideration stocks of oil?

Mr. FOSTER. Yes, sir; very definitely.

Mr. HESELTON. And when those stocks of oil reach certain points, what is the action taken?

Mr. FOSTER. Well, the commissions, most of them, Texas and Oklahoma—and I want the committee to understand now that I am speaking from past experience rather than the present, because I haven't kept up with the actual, but my experience has been when I was with the Oklahoma commission that when the stocks became high, and there was ample oil in stock so that they were sure for the next month everybody would have ample oil to buy, they would tend to cut it down, naturally. It is like General Thompson said. If the stocks got down to a place where there was a danger that people, purchasers, would not have the oil to purchase, then they would raise their allowable.

Mr. HESELTON. Is there a point, percentagewise or on any other basis of determination, when the several commissions or agencies start to take steps to cut back?

Mr. FOSTER. Yes, sir. I don't know that it is a percent, but it is an amount in stocks. However, I haven't kept up with that recently. But by years of study the experts can tell you just about how much oil is necessary in storage in order for everybody to have all they want to buy.

I believe General Thompson said that was 300,000. I am not familiar with those figures. They used to be in my head but they are not now. But, anyway, there is a certain amount, and as General Thompson pointed out, the stocks in each State are earmarked and each State knows just how much stocks they have got on their crude oil. I say "each State." I mean Texas and Oklahoma, and I think all the rest of them. So that there is not necessarily a percent, as I remember it, but certain thousands of barrels that should be in storage in order to take care of it.

Now, when it gets below that line, for each State, or for the Nation as a whole, then the theory is to begin to increase it. If it gets above that—and General Thompson explained that, I think, much better than I can, but I agree with what he said, and I think it is followed by all the States.

Mr. HESELTON. So that in actual practice, the combined effort is to produce what is expected to be taken by the consumer, and to keep the surplus, if you can call it that, the surplus stock, at a certain level, so that it neither goes up too far nor comes down too far.

Mr. FOSTER. That is the general idea.

Mr. HESELTON. And I take it that was probably what you had in mind when you wrote to the former Congressman that:

> Our known producible reserves today are the greatest in our history, and at the same time we are producing more oil than there is demand for, so the aboveground stocks are increasing.

Is that same situation true now?

Mr. FOSTER. Mr. Chairman I don't keep up, since I have been in charge of the compact, with the definite figures. I do have a man in my office that does, but personally I don't keep up. I take it from what General Thompson said a while ago that the stocks are too high right now. But I don't know; no, sir.

Mr. HESELTON. In the same letter, you said:

> In some States it has been necessary to cut back production in order to prevent waste.

Now, General Thompson discussed the matter of waste at some length.

Do you want simply to subscribe to what he said in terms of your definition of waste?

Mr. FOSTER. Yes, sir, I do, and I want to point this out, since Oklahoma has been brought into it. The compact, as General Thompson says, has nothing to do with that, but personally, I not only subscribe to the rule, to the law, but I think personally that the production of oil in excess of market demand as I have seen it in Oklahoma is the most serious form of waste. Personally, I think it is worse than producing at an inefficient rate. I have seen oil in Oklahoma run down the creeks by the millions of barrels, almost, in the early days.

So that to me, as I sat here listening to the questions, the committee seems to be trying to distinguish between waste and the limitation of oil to market demand.

To me, it seems clear that you have to limit market demand.

Mr. HESELTON. That was going to be my next question.

In a Statistical Bulletin of the Interstate Oil Compact, vol. 2, No. 12, 1948, and in similar statistical bulletins, you state in the foreword:

> It must be borne in mind that the demand for crude oil does not necessarily reflect consumer demand for products.

My question is: Just what demand do your estimates cover?

Mr. FOSTER. What I was trying to explain there, Congressman, and it has been a long time ago, is this: The demand, as the general was talking about it a while ago, the demand that is shown by the nominations of these companies doesn't always show the actual demand. That has been a long time ago if I wrote that, and I know this is the way I feel about it, that the consumers' demand is the only proper one. And, as I understand it, the Bureau of Mines goes on consumers' demand. And that is the reason that Oklahoma has always given a great deal of credence to the demand. I may be mistaken. The Bureau can speak for itself. But if I remember right, Dr. White doesn't get any statistics on demand from oil companies. He gets them from the consumers. That is thrown in, by the way. That has just been my understanding.

Mr. HESELTON. But is it not actually a fact that the nominations for the purchases of crude oil placed by the refiners is a great factor and perhaps the primary factor in the determination of the demand for crude oil?

Mr. FOSTER. Of course, you limited that to refineries. I suppose you mean any purchaser. It is certainly one of the principal factors. But if you are asking me for my experience, and that is all I have to go on, of 10 years in Oklahoma, it surely can be relied upon. It is an estimate. And, as General Thompson pointed out, and as I have seen happen so often, the big oil companies design to get an advantage, and a lot of them do—human nature—and will nominate more than they can possibly use, more than they can take, in order to keep the other fellow from getting it, from the market demand, and in order to get the producers from their particular field, and it has to be watched all the time. So we didn't, in Oklahoma, give as much credence to the purchasers' demand as General Thompson seemed to do in Texas, but we did give a lot of credence. We had the same kind of hearings. And they still do.

Mr. HESELTON. Is the procedure in Oklahoma similar to the procedure used in Texas in fixing allowables?

Mr. FOSTER. Approximately so, or it was. And I am sure they follow the same. I have followed it pretty closely. There are a few differences. But fundamentally, I would say, "Yes." We have the weekly hearings. We ask for the nominations. We take the potentials of the wells. We try to find out what the wells can produce without waste, the maximum production, and then we take into consideration the stocks, and then the commission meets and makes the best order that it possibly can.

Mr. HESELTON. Are practically the same companies or individuals involved in making the nominations in Texas as is true in Oklahoma?

Mr. FOSTER. I don't know, Congressman. I know there is a lot of difference. I have attended only a few hearings, and I know there are some of them that are the same, but they are not all the same.

We have a lot of independents in Oklahoma as well as they do in Texas, that have no interest in the others. And I think there are some of the major companies that have interest in Oklahoma that do not have in Texas.

Mr. HESELTON. The New York Journal of Commerce for September 1, 1948, contains a reference to a report by the economic advisory committee of the compact commission.

It is a statement by Mr. Gonzalez.

Are you in a position to say how many times say, in the last 10 years, this economic advisory committee has underestimated the demand?

Mr. FOSTER. No, sir, I am not. I can tell you how long they made reports to the commission, but I couldn't tell you offhand whether they underestimated or overestimated. As I explained in the other hearing, when that was up, the economic advisory committee report was purely information which the commission never used, we did pass it on to the other States if they wanted to use it.

Mr. HESELTON. I take it the commission does place considerable reliance on the reports of that committee?

Mr. FOSTER. None whatsoever, so far as I ever knew of. And I have attended every meeting of the compact, both executive and otherwise, since its organization, either as observer or as chairman of its legal committee, and now as its executive secretary, and if they ever paid a bit of attention to it, I never heard of it. I was entirely responsible for it, because it was very valuable information, and just general knowledge, and a very efficient committee. And we passed it on. We published their reports and passed it on to the States, passed it on to the Federal Government, passed it on to everybody that wanted this information that this economic committe gave us.

I thought it was a very valuable committee, but the commission never paid much attention to it. As a matter of fact, they abolished it.

Mr. HESELTON. Does the compact commission have a similar committee from the oil industry at present?

Mr. FOSTER. No, sir.

Mr. HESELTON. Did it ever have?

Mr. FOSTER. I don't know what you mean, "Did it ever have?" We had the economics committee for about 2 years of 3.

Mr. HESELTON. Well, I meant a committee from the oil industry. This was a committee from the oil industry?

Mr. FOSTER. Certainly not. That is what I have tried to explain. It was selected from the oil industry, this economics advisory committee was, just as I explained in my general statement, but they were appointed and recommended by the Government. It happened they were economists, most of them big oil companies, although some of them were small. But under our theory and our practice, these committees are appointed, and they are given to understand that they are representing the compact, and they are appointed by the governor, suggested by the governor, from whom they come, appointed by the chairman, and approved by the executive committee.

Now, in the appointment of this old economics committee, that the Small Business Committee seemed to think was pretty bad, that committee was selected by me. I had to bag some of the oil companies to let them serve on it. If there was any intimation from any oil company that they wanted us to do that, I never heard of it. But I wanted it. I thought it was valuable information. I still think it was.

But it wasn't selected any more than when you get economists. I don't know anybody in the oil industry but the big companies that have money enough to employ one, unless it is an association.

Mr. HESELTON. I think Governor Shivers testified when he was here at the time of the extension of the compact legislation that the commission had invited certain representatives of some foreign governments, I believe, Venezuela had attended one or more of the commission's meetings. Is that correct?

Mr. FOSTER. That is right.

Mr. HESELTON. Is that true also of Canada and Mexico?

Mr. FOSTER. Yes, sir.

Mr. HESELTON. Are they considered members of the commission, or just observers?

Mr. FOSTER. They are always invited.

Now, officially, by action of their Governor or their chief officer, they can become official observers, the same as nonproducing States can become associate members. Therefore, under that provision of the compact, the Governments of Venezuela and Alberta and Saskatchewan are official observers, and usually they have observers at our meetings.

Mr. HESELTON. Finally, I understand Mr. Walker T. Pound is not going to be able to be here.

The CHAIRMAN. I have understood that Mr. Pound has authorized Mr. Foster to speak for him.

Mr. HESELTON. I see.

Mr. FOSTER. I have a telegram to that effect. I didn't get to talk to him after he sent the telegram.

Mr. HESELTON. You have heard my statement about the published report on Mr. Pound's statement somewhere about June 16, which said that cutting Oklahoma's allowables has not resulted in any decrease in imports, "nor has any credit been given us for our attempt to cooperate in reducing national crude-oil stocks."

Are you in a position to explain what he meant by that?

Mr. FOSTER. I can tell you exactly what I think he meant by it. I read it very thoroughly and discussed it with him at the time. I didn't discuss it over the telephone recently.

If you will read the whole report, a reading of the whole report will show that some people in Texas have been very critical of Walker T. Pound because they said he had not done his duty in limiting the oil to market demand. And Walker came back with the statement that he had done better than Texas. He tried to show he had done better than Texas. It was kind of a contest between the two States, as I read it. That in Texas, while the stock of Texas oil had increased, his had not; that he had kept it down nearer to his law than Texas had to theirs. That was what he was trying to bring out. And that this was a bunch of people in west Texas that were trying to get the market that was really due to Oklahoma and trying to get him to get down below what he ought to and to limit it more than he should.

And by the word "cooperate," I think he means they failed to give him credit for trying to do his duty in keeping the oil down to market demand.

Now, you will have to ask him. I notice by the telegram that I got, Mr. Chairman, that he says he will come later personally if you want him to. But I will be glad to answer any questions I can.

Mr. HESELTON. I would rather leave them for him, but I would like to ask you if you think there is any possible doubt but that there has been an effort, cooperative or otherwise, to reduce the national crude stocks in recent months?

Mr. FOSTER. Well, I can't speak to that, any more than that I base this largely on what I heard General Thompson say. I am sure in Texas they have been trying to reduce theirs some. Because they think, according to General Thompson, that they are way too big now. But I can't answer that with anything that would help this committee, because I am not closely connected with the inner workings of any particular regulatory authority.

Mr. HESELTON. If there has been that effort, and if it has been successful, there is no doubt but what it has contributed to the possibility of justifying the price increases. Is that not true?

Mr. FOSTER. If the effort has been sufficient to have reduced the allowable oil in the various States that have limitation statutes, to a place where oil would have been scarce, where you couldn't buy it, certainly in my humble opinion it would have affected the price. But so far as my knowledge has gone, I would have to answer like General Thompson has: That has never happened in Oklahoma in the 40 years I know about it, that I know of. We have nearly 40 years' experience with a market-demand statute. We passed it in 1915. It may have happened, but I don't know about it if it has.

Mr. HESELTON. But, Mr. Foster, you would be frank enough to admit, I am sure, that if it is desired to impose a price increase, whatever reason may be offered for that after the price increase, it would be extremely desirable to cut down on the available stocks, so that it could be pointed out that you had to have an increase in order to increase drilling and therefore build your stocks up.

Mr. FOSTER. You mean that would be a desirable thing if I was wanting to get a price of oil?

Mr. HESELTON. Yes.

Mr. FOSTER. I certainly think so. I will agree to that.

Mr. HESELTON. That is what I thought.

That is all, Mr. Chairman.

The CHAIRMAN. Mr. Foster, that concludes your statement, I assume?

Mr. FOSTER. Yes, sir.

The CHAIRMAN. We thank you for having come on such short notice to the committee. We realize it may have entailed some inconvenience to do so. For that reason, we appreciate all the more the fact that you have appeared and have testified here today.

I regret that I was out of the room at the moment that General Thompson left us. I had expected to express to him my appreciation for his willingness to come on such short notice to the committee.

It has been my privilege to know General Thompson for some 20 or 21 years. I have found him to be a man of splendid ability and of high purpose, with a sincere desire to serve faithfully and well in public office. He has enjoyed the confidence of the people of his State or he would not have been continued in the important position that

he has held for these 21 years. During that time he has likewise evidenced his patriotism in his service to his country, and he continues to serve in the military forces.

I consider him a man of fine character and great ability, and while we may differ at times with respect to some matters that engage our attention, yet I have never ceased to have the highest regard for him personally and for his honor and ability and integrity.

Fortunately, I was able to reach him by telephone after he left, because I had desired to present to him several questions, which he has kindly consented to answer, upon my sending the questions to him in the form of a letter. When his answer is received, it will be made a part of the record in this matter.

(The information referred to is as follows:)

GAS AND OIL PRICE HEARINGS—JULY 23, 1953

Gen. ERNEST O. THOMPSON, *Texas Railroad Commission:*

1. Chairman Thompson, will you describe for us just how the Texas commission proceeds to set the allowables each month? By this, I mean a description of the actual procedures, that is, I understand you accept "certain nominations" from the various oil companies and based on these nominations you set your allowables. Just how do you do this? Asked at the hearing.

2. What determines the various rates which you set for the different fields? I note, for instance, that in August you have set a 21-day schedule for Texas fields generally, 18 for east Texas, and 11 for Spraberry. Just what causes this variation—the nominations of the companies, conservation practices, or what?

3. Would you discuss for us who determines the "maximum efficient rate" of production? It is my understanding that this is a physical factor which is determined, I take it, by engineers. Is this determination by the staff of your commission, by the oil companies, or by both?

4. Inasmuch as it appears that your allowables have been set at figures below maximum efficient rates of production, would you describe for us just what standards you administer in setting these allowables? I have in mind that the Texas statute has some definition of conservation which, in addition to those concerning physical production also include something to the effect that conservation means the avoidance of waste of oil produced in excess of what the market demands. Would you describe this for us and file for the record a copy of the statute as well as any regulations or standards which you may have set up under such statute covering this situation? Asked at the hearing.

5. Would you give the committee the actual allowables you have set for each month for the past 12 months? The actual production under such allowables and the total of the nominations upon which you based these allowables?

6. Would you explain for us the difference between the allowables and actual production?

7. Will you explain the difference between the allowables set and the total of the nominations, if there is any difference?

7 (a) Can you give us now or supply for the record the allowables set by the commission compared with what the total production would be if it were at the maximum efficient rate of production since the commission has first administered this statute?

(I appreciate the work in going back to the early thirties. Would you be able to make some general statement as to the time up to the end of the year, and then supply the information from 1946 to date?)

7 (b) Would you now for the same period also give us what the prices have been for crude oil? What was the price in the early thirties? What is the price today? Since the commission first undertook to administer this market demand statute, has the price of crude ever declined?

7(c) Do you feel, Commissioner Thompson, that this adjustment of the amount of oil which may be produced in Texas to a figure which the oil companies say they want to buy is a very definite determinate of price?

STATEMENT OF ERNEST O. THOMPSON, CHAIRMAN, THE TEXAS RAILROAD COMMISSION, BEFORE THE INTERSTATE AND FOREIGN COMMERCE COMMITTEE, UNITED STATES HOUSE OF REPRESENTATIVES, WASHINGTON, D. C.

Mr. Chairman and members of the committee, in addition to testimony presented before the Interstate and Foreign Commerce Committee on Thursday, July 23, 1953, the following is in reply to the questions tendered me in writing by the Honorable C. A. Wolverton:

In order to properly consider the questions asked of me, I wish to first give the definition of "waste" as outlined in the Statutes of the State of Texas. Article 6014 of these statutes defines "waste" as "The production, storage, or transportation of crude petroleum oil or of natural gas in such manner, in such amount, or under such conditions as to constitute waste is hereby declared to be unlawful and is prohibited. The term 'waste' among other things shall specifically include: * * * (g) Waste or loss incident to, or resulting from, the unnecessary, inefficient, excessive, or improper use of the reservoir energy, including the gas energy or water drive, in any well or pool; however, it is not the intent of this act to require repressuring of an oil pool or that the separately owned properties in any pool be unitized under one management, control or ownership. * * * (j) The production of crude petroleum oil in excess of transportation or market facilities or reasonable market demand. The commission may determine when such excess production exists or is imminent and ascertain the reasonable market demand."

I shall discuss first the subject of underground or reservoir waste in its relationship as a pertinent function to the setting of allowables for the State of Texas. We in Texas have found it desirable through long years of experience in the field of reservoir engineering to determine the most efficient rate of production, hereinafter referred to as MER, for the 1,600 oil fields in the State. By the most efficient rate of production, or MER, we mean the rate of oil production from a field which, if exceeded during the time period contemplated, will cause such changes in reservoir fluid conditions as can result in a loss of ultimate oil recovery.

We have further found that the MER of a reservoir will not remain static throughout the life of a field, and requires continuing review. MER's for the individual fields and reservoirs of the State are determined as follows: After due notice of 10 days as required by law, all interested parties in a particular field meet in public hearing before the commission's engineering examiners. During the course of the hearing, basic reservoir data are presented together with reservoir performance data, such as reservoir pressure, gas-oil ratio, gas, water, and oil production, and other factors well known to engineering science in determining performance of reservoirs. Cross-examination of witnesses by interested parties and by commission engineering examiners is had to fully explore the reservoir performance with the idea in mind of determining what rate of production will result in the greatest ultimate production of oil, thereby minimizing waste. The data thus secured is reviewed carefully by the staff of the engineering department, and a final recommendation of that department is obtained through the chief engineer to the commission with regard to the proper MER for the reservoir in question. The commission then meets in formal conference once each week with the engineering staff, at which time all matters pertinent to the MER determination are discussed in detail with the commission. The commission thereupon formally makes a finding of fact with regard to the MER for that particular field. The frequency of the number of hearings on each reservoir will depend upon the sensitivity of the reservoir to the rate of fluid withdrawal. After all such MER's have been determined for the various fields of the State, we simply arrive at a summation of the MER's to arrive at a total MER for the State, which at this writing, we are happy to say, is in excess of what can normally be utilized.

During my testimony above referred to, I attempted to make very clear the fact that oil produced and held in aboveground storage in excess of the demand for such crude, taking into account the necessary working stocks, will result in evaporation of the lighter ends of hydrocarbons which will amount to considerable aboveground waste.

During the early 1930's our experiences with unrestricted rates of production from the fabulous east Texas and Yates fields resulted in just such abominable waste. In order to prevent such aboveground waste, the Legislature of Texas in its wisdom enacted the so-called market demand statute, the full text of which is attached.

In order to ascertain the reasonable market demand for Texas crude, the commission proceeds as follows: Once each month notice of statewide hearing for the succeeding month is circulated to all operators at least 10 days prior to the date of hearing. Commission rules and regulations require that all purchasers file with the Commission their nominations for purchases of Texas crude for the subject month so as to be available for this hearing. When the statewide hearing is held, the nominations, which have been compiled by field, district, and State total, are made a part of the record of the hearing and are available to those in attendance.

Also at this hearing evidence is received from witnesses pertaining to the market demand for Texas crude, and these witnesses are subject to cross-examination by the commission or any other interested party. Also frequently made a part of the statewide hearing record are pertinent statistical data, such as the Bureau of Mines' estimate of market demand for the State of Texas, the Bureau of Mines' storage figures for crude oil for both the United States as a whole and Texas, together with other information that might be pertinent to that particular hearing.

The commission maintains complete statistical records of United States and Texas stocks of crude oil of Texas origin and principal products, as well as demand estimates and forecasts made by such sources as API, Bureau of Mines, etc., including graphs showing trends and other seasonal data which are constantly studied by members of the commission and its staff.

At the conclusion of the statewide hearing the commission meets in executive session, where the entire picture is brought into focus through the consideration of nominations, the evidence adduced at the hearing, and the available statistical data. Then by weighting the above factors, the commission determines the reasonable market demand for Texas crude. All of the above is then related to the MER so as to insure the ratable distribution of the market demand to all of the fields in the State in order that no field will produce more than its MER.

We have then taken into account both below-ground or reservoir waste so as to achieve the greatest ultimate recovery of oil from the various reservoirs of the State and aboveground waste so as to furnish the maximum amount of oil production consistent with reasonable market demand to the end of reducing evaporative losses that would result from an overabundance of aboveground storage.

Certain fields in the State of Texas, because of their unusual producing characteristics, will deviate from the general statewide producing pattern. For example, we have found that the MER for the east Texas field is 275,000 barrels per day; however, this field, because of its original natural water-drive energy, later supplemented by the injection of produced water, is extremely rate sensitive, and the sensitivity can be readily ascertained through the medium of obtaining bottom-hole or reservoir-pressure data. Through the years commission engineers have calculated these reservoir pressures monthly, and we now find that the optimum rate for this field varies between the limits of 17 and 20 producing days. This will explain the reason for adopting 18 producing days as stated in Chairman Wolverton's question No. 2.

The Spraberry trend area field presents another unique problem in that available facilities for marketing casinghead gas produced incident to the oil production are such as to warrant only 11 days' production to prevent unnecessary flaring or waste of this valuable resource.

When the commission has determined, after consultation with its engineering department, the allowable based on the 30-day MER for these unique fields, this amount is subtracted from the total market demand and the result is then apportioned ratably to the remaining fields of the State, resulting, for example, during the month of August in 21 producing days for the remainder of the State.

The actual production for each month for the past 6 months and the total nominations upon which these allowables are based are attached hereto as requested in question No. 5.

In a settled field, or "flush" producing fields, the allowable and production are normally the same, absent mechanical difficulty, on individual wells. However, in marginal fields, or fields operating in the last stages of production, production usually falls below the allowable; however, through the medium of work-over operations wells can frequently return to full allowable production.

In answer to question No. 7, it can be readily seen from the earlier discussion that the allowables will not necessarily correspond to the nominations, inasmuch as the nominations are only one of the many factors considered in arriving at MER.

Attached hereto is the transcript of the latest hearing on the Spraberry field, which, if studied even casually, will show that we are, by limiting that field's production to transportation pipeline outlet capacity, saving for man's future use 220 million cubic feet of casinghead natural gas that would otherwise have been wasted by venting and flaring into the air. Conservation of oil and gas means wise use of reservoir energy. We prevent waste.

The CHAIRMAN. That will be all.

The committee adjourns.

Mr. FOSTER. I take it that I won't need to stay over? I take it that I am excused?

The CHAIRMAN. You are excused, with the thanks of the committee.

(The following material was submitted for the record:)

NATIONAL AVIATION TRADES ASSOCIATION,
Washington 6, D. C., July 8, 1953.

Hon. CHARLES A. WOLVERTON,
Chairman, House Interstate and Foreign Commerce Committee,
House Office Building, Washington, D. C.

DEAR MR. WOLVERTON: We note that your committee has been holding hearings relative to the recent increase in aviation gasoline prices.

The National Aviation Trades Association, representing some 1,400 commercial air service (fixed base) operators in 40 States, sincerely hopes that your committee will make every effort possible toward obtaining a return of gasoline prices to previous levels.

In an acknowledgedly expensive enterprise such as our services and products represent, with public acceptance still at a minimum, and in view of the fact that it has been no small task to obtain a "break even" point let alone show any appreciable returns, any added expense represents a serious deterrent to the development and expansion of our end of aviation.

We would appreciate your including this statement in the record.

Respectfully yours,

NATIONAL AVIATION TRADES ASSOCIATION,
CHARLES A. PARKER, *Executive Director.*

INTERSTATE OIL COMPACT COMMISSION,
Oklahoma City 5, Okla., August 4, 1953.

Hon. CHARLES A. WOLVERTON,
Chairman and Members, Interstate and Foreign Commerce Committee,
United States House of Representatives, Washington, D. C.

(In re hearings on price of oil, Interstate Oil Compact Commission.)

MY DEAR SIR: If your files are yet open for the receipt of communications of this nature, I would like to place the following statement relative to the subject matter.

I am the representative of the Governor of the State of Louisiana on the Interstate Oil Compact Commission. I am serving my second term in the State senate and am chairman of its finance committee.

I am an attorney of some 17 years' experience in a general practice. For the most part, my practice is general and I do not represent any major oil company. On the contrary, my position in the committee is that of a representative of the landowner and royalty owners. From the present and other communications, I understand that your committee is concerned with the roll of the Interstate Oil Compact Commission in the oil and gas industry, and particularly any effect it might have on the price of oil to the consumer.

To put it briefly and not burden you with extensive argument, may I simply express the firm personal opinion that in the absence of such a program as that sponsored by the Interstate Oil Compact Commission there would be temporary chaos, then complete monopoly or complete Government regulations of the NRA type, or in the alternative much higher costs of petroleum products to the public.

May I call your attention to the fact that the compact commission is composed of the governors of several States, with one exception. The representative from New Mexico is sui juris, being appointed by the Governor, however. Hence it is composed of representatives of the public.

May I also call your attention to the fact that action of the commission must be not only by heads, but must also be concurred in by every State in proportion to its interests.

In conclusion, may I state both as a citizen and as a representative on the commission that in my opinion the Interstate Oil Compact Commission unquestionably militates in favor of and serves the public interest, including the consumer, to the national defense effort to the extent that it depends upon petroleum, and the entire conception of the useful conservation of our national resources.

Yours very truly,

CHARLES TOOKE.

STATEMENT BY M. F. A. OIL CO. TO HOUSE INTERSTATE AND FOREIGN COMMERCE COMMITTEE

JULY 22, 1953.

The M. F. A. Oil Co. is a farmers cooperative, affiliated with the Missouri Farmers Association, which has a membership of 150,000 farmers. We are engaged primarily in oil marketing and oil refining. Our marketing activities are confined largely to Missouri, but we have distribution also in parts of Kansas, Arkansas, Tennessee, Mississippi, and Alabama. We have small refineries at Chanute, Kans., and Memphis, Tenn., and produce only 2½ percent of our crude oil requirements.

When announcements were made by the major oil companies of the crude oil price increase on June 15, we became alarmed immediately. We felt that wholesale market conditions would not allow refinery oil prices to advance sufficiently to compensate for higher crude oil prices. We advanced our refinery prices approximately 1 cent per gallon on gasoline, one-half cent per gallon on kerosene and distillates, and 25 cents per barrel on residual fuel oil. These increases were barely enough to offset the crude oil price raise of 25 cents to 30 cents per barrel.

Our fears that these increases in the prices of refined oil products would not hold have been substantiated. Today, the actual market on kerosene and distillates is no higher than before June 15. It is true that published market quotations have remained one-half cent per gallon higher. However, kerosene and distillates are now being sold at prices no higher than those in effect before the crude price increase. We know this to be a fact because we have barge loads for sale at our Memphis refinery. As further proof of this market situation we quote from the July 20 issue of the Oil and Gas Journal, "Some marketers believe that continued sales at the old price (No. 2 fuel oil) will eventually bring general postings down * * * and wipe out all of the increase."

In addition to no actual increase in kerosene and distillate prices, the independent refiner may not be able to hold up his price of gasoline. To cite one example—the major oil companies increased the consumer price of gasoline only-three tenths cent per gallon in northeast Arkansas following the crude price raise. This is a major marketing area for our Memphis refinery. Our jobbers in that area have had their cost on gasoline increased 1 cent whereas their selling price to the consumer has gone up only three-tenths cent per gallon, resulting in a reduction of seven-tenths cent per gallon in their gasoline margins. Obviously, this works a substantial hardship on those jobbers. If that situation isn't corrected soon, we, as an independent refiner, may be forced to make a substantial reduction in our price of gasoline for shipment to that area. This is true although the increase in our raw material cost holds.

Recently we have read of the increased margins given to jobbers by major oil companies. We have no objection to jobbers receiving additional margins which they undoubtedly need, but there is only one place for it to come from—a reduction in refinery prices. In the case of a major oil company they can absorb this reduction in refining profits by taking it out of crude oil production. profits. In other words, any increase in price whatsoever received by a major oil company for its finished products is additional profit. If finished product prices go up an average of only 10 cents per barrel, then a major oil company, owning its own production, is simply realizing an overall increase of 10 cents per barrel in profits regardless of whether it shows up in its marketing division, its refining division, or its crude production division. However, an independent refiner who must buy all of his crude oil and is paying a 30 cents per barrel higher price is simply being squeezed 20 cents per barrel if finished products go up an average of only 10 cents per barrel. Under these circumstances we wonder if we can expect the major oil companies to make any real attempt to hold up finished product prices.

The M. F. A. Oil Co. has just finished spending almost $3 million to enlarge and modernize our Memphis refinery. We were encouraged by Petroleum Administration for Defense and other Federal agencies to increase capacity and to build a catalytic cracking unit. Without this encouragement (including a Certificate of Necessity) we undoubtedly would have foregone our construction program. We are not an isolated case in this respect among independent refiners. Due to this sort of encouragement, there is now almost 1 million barrels excess refining capacity in the United States. Certainly ample refining capacity is proper for purpose of national defense and the protection in case of all-out war. However, if the independent refiners are eliminated due to low product prices with increased crude costs, much of the refining capacity, so expensively built, will be liquidated.

The M. F. A. Oil Co. is owned entirely by farmers and the recent price increase in gasoline and tractor-fuel prices came at a time when farm income is at the lowest level in many years and still falling. However, the farmer-owners of the M. F. A. Oil Co. have several millions of dollars invested at our refineries and in marketing facilities. The loss to farmers in our territory will be much greater if our refineries, and other independent refineries, are forced to liquidate than if slightly higher prices are paid for finished oil products. It has been pointed out in hearings before this committee that the independent refiner exists principally in the Middle West. The competition of the independent refiner has contributed to lower prices being paid by farmers and all consumers in our area as compared with prices in areas not served by independent refineries. Thus, a "squeeze" upon independent refiners which drives them out of business will in the long run be more costly to consumers than product price increases at this time commensurate with crude-oil price increase.

The Arkansas State Legislature only last year conducted hearings in an attempt to ascertain why major oil companies charged lower prices in the Memphis area in comparison with prices charged at Helena, Ark. and in southern Arkansas, which happens to be the origin of products moving to the Memphis area.

It has been pointed out in testimony before this committee that refinery operating costs have increased materially since the last general price increase on finished products. In our refineries this increased cost has averaged 20 cents per barrel. The independent refiner without crude-oil production of its own cannot possibly absorb the recent crude-oil price raise and stay in business.

The recent crude-oil price increase may be justified because of higher production costs. However, with large stocks of finished products in inventory, the result is obvious. Product prices will not increase sufficiently to offset higher raw-material costs. Refineries, too, needed higher prices to compensate for higher operating costs, but they have been unable to increase prices because of adverse supply and demand factors. Marketers too, have needed higher margins because of increased operating costs, and, major oil-company jobbers are apparently getting lower prices and thus higher margins. The only segment of the oil industry which it appears is going to be hurt as a result of the recent crude price raise is the independent refiner.

Therefore, it appears to us the real problem arising from the crude price raise is the apparent subsidization of the refining branch of major oil companies by their crude-oil production divisions. If the independent refiner is "squeezed out," then higher consumer prices are bound to follow.

R. A. YOUNG,
General Manager.

(Whereupon, at 5:30 p. m., the hearing was adjourned, subject to the call of the chair.)

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